RESTRUCTURING OF THE OFFICE OF PERSONNEL MANAGEMENT

Y 4.G 74/7:R 31/11

Restructuring of the Office of Pers...

HEARING

BEFORE THE

CIVIL SERVICE SUBCOMMITTEE

OF THE

COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTH CONGRESS

FIRST SESSION

FEBRUARY 7, 1995

Printed for the use of the Committee on Government Reform and Oversight

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RESTRUCTURING OF THE OFFICE OF PERSONNEL MANAGEMENT

TUESDAY, FEBRUARY 7, 1995

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON CIVIL SERVICE,
COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:33 a.m., in room 2203, Rayburn House Office Building, Hon. John L. Mica (chairman of the subcommittee) presiding.

Members present: Representatives Mica, Bass, Gilman, Morella, Moran, and Mascara.

Mr. MICA. I'd like to call the first meeting of the Subcommittee on Civil Service to order. I'm John Mica, I've been chosen to Chair this panel. Good morning to some of our witnesses and those in attendance, also to my colleague, Frank Mascara, from Pennsylvania. Can't help but reflect that I feel a bit like Vaclav Havel this morning. I remember when he addressed the House, was it a year or so ago, and he opened his statement, and said something like, "4 months ago I was in jail and wasn't allowed to speak, and here I am before the Congress." And my situation is somewhat similar.

Four months ago I wasn't allowed to speak in this committee, at the last hearing in the full committee, and here I am today chairing a panel. So it's an exciting time for me. I want to take this opportunity to welcome everyone to this first hearing of the newly created Subcommittee on Civil Service of the Government Reform and Oversight Committee.

It's, as I said, an honor and privilege to Chair this subcommittee, and I look forward to working with Chairman Clinger, and also with our Vice Chairman, Mr. Charles Bass, of the subcommittee, who has been designated for that position. I have also enjoyed, since my appointment, my work with the ranking member, Mr. Moran from Virginia, who has been most accommodating in working with us and trying to reach mutual accord on the goals and objectives of this subcommittee. And the same is to be said for my colleague from Pennsylvania, whom I recognized earlier.

I've selected the following personnel, and I'd just take a minute to introduce them to the committee and subcommittee and also to the gathering this morning. George Nesterczuk is our staff director. George? Maybe you all can raise your hands. Dan Moll is a senior policy director, Dan's over there. Garry Ewing is our legal counsel. Susan Mosychuk, there she is, one of our professional staffers. And Caroline Fiel, and she's in the back, she's going to be serving as our clerk.

The Post Office and Civil Service Committee, our predecessor, had 74 staff people. We hope to do the work with seven, and the Post Office Subcommittee will have approximately seven staffers. So we have quite a challenge before us.

The Subcommittee on Civil Service has inherited the lion's share of jurisdiction from the old Post Office and Civil Service full committee, and our subcommittee has jurisdiction over Federal Civil Service, which breaks down into two main areas, compensation and rules of employment.

According to rough calculations, this constitutes nearly $140 billion in annual spending for the fiscal year 1995. This represents nearly 10 percent of the total annual budget of the United States. In the months ahead, we have an ambitious schedule and a number of serious challenges.

It's my intention to conduct a thorough review of all major personnel legislation, including: the 1978 Civil Service Reform Act, the 1986 revamping of the Federal Retirement System, and the 1990 overhaul of the pay system for Federal employees.

The governmentwide jurisdiction of this subcommittee will allow us to examine virtually all activities of Federal employees and provide a systematic review of the downsizing of government personnel. A reduction in government and streamlining in government activities have been demanded by the taxpayers of this Nation, and it is my deeply held conviction that the citizens of this country deserve a quality workforce, a workforce that will provide efficient and effective service.

During my chairmanship of this subcommittee, I'm committed to find and institute whatever remedies necessary to unburden Federal employees from unnecessary rules, regulation, and red tape. We, in the legislative branch, must accept a share of responsibility for creating this sticky web over the years. And now we have the task of making some sense of this.

Government must be more responsive, more accountable, and less intrusive and less expensive. I know we've all heard that before. Up to this point, however, attempts to restructure or downsize have been done in piecemeal or patchwork fashion, often simply trimming government around the edges.

The short-term and long-term impact of these efforts is negative, and at times counterproductive, as promises to do more with less have promoted false expectations among affected constituencies. It is essential that a radical change occur in the way the Federal Government and its departments and agencies are managed.

We must alter the size and scope of government functions to bring them into line with the needs and expectations of our citizens. Agencies must be taught to police themselves. By this I mean they must make continuous improvements on their own initiative.

Any organization needs to alter its structure if it is to significantly change its size and function. Any organization that doubles or triples in size needs to be restructured, and also needs to be reexamined from time to time. If any institution continues in its old ways, it can become unmanageable and unresponsive.

We are undergoing such a reassessment right now, as we are the overseers of the Federal workforce. We must continue in this opportunity to streamline and modernize the rules which guide our

workplace. I look forward to working with each and every member of the subcommittee and those in the public and private arena to complete this important mission.

I've met informally with all of the members of the subcommittee, and I again encourage each Member to identify the policy areas where they believe particular oversight emphasis and work is warranted and needed. It is my goal to treat the minority fairly and establish an open and productive dialog with both sides of the aisle during my chairmanship.

Today the subcommittee will examine the proposal by the administration to downsize the Office of Personnel Management. Yesterday, in President Clinton's budget, he recommended cutting the OPM staff by one-third.

I look forward to hearing from OPM and representatives of the administration and the private sector as to how best to implement changes in our personnel policy. To add an external perspective to this set of issues, we will hear from two distinguished scholars, both of whom have particular expertise in this field.

Today's hearing will begin the process of gathering information from the administration and receiving comments from experts in the private sector and personnel directors from within the government. We have a personnel director from a large department and a personnel director from a small agency, to give us a perspective on the impact of administration recommendations at several levels of government.

Effective and efficient personnel policy and activity at every level of the Federal Government is really our goal. To determine what role the Office of Personnel Management, the Federal Government's central personnel agency, will play in this environment of downsizing is really our first task here today.

So I look forward to hearing from all of our witnesses. I look forward to the participation of all of our members in this and future meetings. And also I'd like to recognize at this time the gentlewoman with great experience and credentials and background on the former full committee, Civil Service and Post Office, Connie Morella from Maryland. Our entire panel is here, with the exception of Mr. Gilman and Mr. Sanders.

[The prepared statement of Hon. John L. Mica follows:]

PREPARED STATEMENT OF HON. JOHN L. MICA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA

Welcome to the first hearing of the newly created Subcommittee on Civil Service of the Government Reform and Oversight Committee. It is a privilege and an honor to serve as the chairman of this subcommittee. I look forward to working with the chairman of our full committee, Representative Bill Clinger of Pennsylvania, and Representative Charles Bass of New Hampshire, vice chairman of the subcommittee, in the months ahead. I also look forward to working closely with our ranking member, Mr. Moran of Virginia, and all the members of our subcommittee and the full committee.

I have selected the following professional staff on the subcommittee: George Nesterczuk, staff director; Dan Moll, senior policy director; Gary Ewing, counsel; Susan Mosychuk, professional staff and Caroline Fiel, clerk. The Post Office and Civil Service Committee had 74 staff people. Fulfilling the oversight responsibility of that committee with just six people at my subcommittee, and six people at the Postal Subcommittee, will be a challenge.

Share of the jurisdiction from the old Post Office and Civil Service Committee. The subcommittee has jurisdiction over the Federal civil service, which breaks down into two main areas: compensation and rules of employment. According to some

rough calculations this constitutes nearly $140 billion in annual spending for fiscal year 1995. This represents just under 10 percent of the total annual budget of the United States.

In the months ahead we have an ambitious schedule and a number of serious challenges. It is my intention to conduct a thorough review of all major personnel legislation, including: the 1978 Civil Service Reform Act, the 1986 revamping of the Federal retirement system, and a 1990 overhaul of the pay system for Federal employees. The government-wide jurisdiction of this subcommittee will allow us to examine virtually all activities of Federal employees, and provide a systemic review of the downsizing of Government personnel. A reduction in Government and a streamlining in Government activities, have been demanded by the taxpayers of this Nation.

It is my deeply held conviction that the citizens of this country deserve a quality workforce, a workforce that will provide efficient and effective service. During my tenure as chairman of the subcommittee I am committed to find and institute whatever remedies necessary to unburden Federal employees from unnecessary rules, regulations and red tape. We in the legislative branch must accept a share of responsibility for creating this sticky web, and now have the task of making sense of the process. Government must be more responsive, more accountable, less intrusive and less expensive.

Up to this point, attempts to restructure or downsize have been done in piecemeal or patchwork fashion, often simply trimming Government around the edges. The short and long-term impact of these efforts is negative and at times counterproductive as promises to do more with less have promoted false expectations among affected constituencies. It is essential that a radical change occur in the way the Federal Government and its departments and agencies are managed. We must alter the size and scope of government functions to bring them into line with the needs and expectations of our citizens. Agencies must be taught to police themselves, by this I mean they must make continuous improvements at their own initiative. Any organization needs to alter its structure if it significantly changes its function and size. Any organization that doubles or triples in size needs to be restructured. Likewise, any organization or government entity needs to rethink itself once it is more that forty or fifty years old to ensure it still reflects the will of the people it serves. If any institution continues in its old ways, it can become unmanageable, and unresponsive. We are undergoing such a reassessment now and we as the overseer of our Federal workforce must use this opportunity to streamline and modernize the rules which guide our workplace environment.

I look forward to working with you and each and every member of the subcommittee and those in the public and private arena to complete this important mission. I have met informally with all the members of the subcommittee, and I again encourage each member to identify the policy areas where they believed particular oversight emphasis may be warranted. It is my goal to treat the minority fairly and establish and open productive dialogue with both sides of the aisle during my chairmanship.

Today the subcommittee will examine the proposal by the administration to downsize the Office of Personnel Management (OPM). Yesterday in President Clinton's budget he recommended cutting the OPM staff by one-third. I look forward to hearing from OPM and representatives of the administration and the private sector as to how best to implement changes in our personnel agency. To add an external perspective to this set of issues we will hear from two distinguished scholars both of whom have particular expertise in this field. Today's hearing will begin the process of gathering information from the administration, and receiving comments of experts from the private sector, and personnel directors from within the Government. We have a personnel director from a large department, and a personnel director from a small agency, to give us a perspective on the impact of administration recommendations at several levels of our Federal Government.

As we move rapidly to downsize we must ensure a lean, effective and efficient personnel policy and activity at every Federal level. To determine what role the Office of Personnel Management, the Federal Government's central personnel agency, will play in this environment of downsizing, is our first task here today.

I look forward to hearing all of our witnesses. I must ask each witness to please summarize their testimony. You may be assured your entire statement will be placed in the record.

Mr. MICA. Are there further opening statements?

Mrs. MORELLA. If there is time, Mr. Chairman, I'd like to offer an opening statement, if I may.

Mr. MICA. Yes.

Mrs. MORELLA. Thank you.

It's with great anticipation that I await the testimony on the restructuring of the Office of Personnel Management. On the surface, of course, the major changes proposed for OPM could have limited consequences for the Federal workforce and Federal work—in the Federal Government, since the agency itself is relatively small.

But in fact the agency, perhaps as much as any other in government, interacts with virtually every other arm of the Federal bureaucracy and, therefore, the changes executed at OPM have ripple effects throughout the government.

Of course the winds of change already have impacted OPM in a variety of ways. That venerable application form, the Standard 171, already has been eliminated, and so has the hidebound 10,000-page Federal Personnel Manual. Attempts have been made to greatly expedite the hiring process, although recent recruitment has been limited. Substantial downsizing at OPM has already occurred.

But now the administration is embarking on a decentralizing process that will transfer many personnel functions from OPM to individual Federal agencies, large and small. This process would occur at a time when many of those individual agencies are facing downsizing themselves. So I'm going to be looking forward to hearing from OPM and from representatives of two of those agencies on how personnel policies will be handled in the future.

It's quite possible that larger agencies, even in a slimmed down form, will have sufficient expertise to handle their new personnel duties efficiently. My greater concern at this point is how smaller agencies, many of which also face downsizing, will be able to adjust to the additional responsibilities.

Will they have sufficient personnel and sufficient knowledge of relevant regulations by those specialists to comply with Title V regulations? Can they handle hiring as well as retirement procedures in an expeditious way that properly serves the needs of the employee?

On a related matter, one area that I hope warrants attention is the future administration of the Federal Employees Health Benefits Program, which has been run in a highly effective and timely fashion in the past. What are the prospects of retaining FEHB within the OPM structure for the foreseeable future?

So, Mr. Chairman, both as a member of this subcommittee and as a representative of more than like 55,000 Federal employees, probably close to 30,000 retirees, I eagerly await the upcoming testimony and I commend you for calling this important hearing and for the comments that you made about the nature of this subcommittee under your leadership.

[The prepared statement of Hon. Constance A. Morella follows:]

PREPARED STATEMENT OF HON. CONSTANCE A. MORELLA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MARYLAND

Mr. Chairman. It is with great anticipation that I await the testimony today on the restructuring of the Office of Personnel Management. On the surface, of course, the major changes proposed for OPM could have limited consequences for the federal government—and federal workforce—since the agency itself is relatively small. But, in fact, the agency, perhaps as much as any other in government, interacts

with virtually every other arm of the federal bureaucracy and therefore the changes executed at OPM have ripple effects throughout the government.

Of course, the winds of change already have impacted OPM in a variety of ways. That venerable application form—the Standard 171—already has been eliminated. So has the hide-bound 10,000 page Federal Personnel Manual. Attempts have been made to greatly expedite the hiring process, although recent recruitment has been limited. Substantial downsizing at OPM has already occurred.

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On a related matter, one area that I hope warrants attention is the future administration of the Federal Employees Health Benefits Program, which has been run in a highly-effective and timely fashion in the past. What are the prospects of retaining FEHBP within the OPM structure for the foreseeable future?

Mr. Chairman, both as a Member of this Subcommittee and as the Representative of more than 55,000 federal employees and approximately 30,000 retirees, I eagerly await the upcoming testimony. I commend you for calling this important hearing.

Mr. MICA. Thank you.

I would like to now yield to the distinguished gentleman from Virginia and our ranking member on the subcommittee, Mr. Moran.

Mr. MORAN. Well, thank you, Mr. Chairman. And I am glad to see my friend, Mrs. Morella, on the subcommittee. I have to say in responding to your opening statement, you should know that it is no less an exciting a time for us in the minority. And in fact we are no less struck by dramatic change in roles.

But having said that, we're going to try to perform the role of the loyal opposition in a constructive manner. I am not as excited about reducing the size of the workforce as others might be. In fact, even the National Performance Review I think went too far too fast.

I agree with a number of principles behind it. I do think procurement, for example, was in drastic need of reform, as was the Civil Service manual. It was far too bulky and it really didn't allow for the kind of innovation and creativity that you need in any organization, particularly as large a one as the Federal Government.

I think much of the fault for this lies with the legislative branch because we didn't allow for mistakes within the executive branch. Any time there was a mistake, it was an opportunity for a press conference and a hearing to make legislators look good at the expense of Federal employees.

Of course unless you have an opportunity to make mistakes, you have very little opportunity to grow. The only way in our own personal lives as well as in corporate life that you really advance and grow and innovate, is by having the latitude to make some mistakes and to learn from those mistakes.

That hasn't been the case in the Federal Government. I think that's a large part of the problem. As far as the reduction of 250,000 people, that has grown to 272,900, and this had less to do

with the size of the Federal workforce than the fact we were trying to find ways to pay for the crime bill. This shouldn't have had such a direct relationship, but in fact did.

Actually, we've taken credit for the savings, the 20 odd billion dollars from reducing the Federal workforce, three times over now. But the principal place where we took those savings was in paying for the crime bill. What we should have done in my humble estimation is to follow Sister Mary Ginny Seta's advice. I remember it back from fourth grade. She used to say "everything in moderation, and in good time, Jimmy."

And when we look back at efforts to reform the Federal workforce, the one effort that is the most enduring is the Hoover Commission. And that's because it took a lot of time, a lot of thought, and it was a profound change. The other efforts that we have made were mostly political, and while they may have achieved their political aims, they had very little impact on the overall functioning of the Federal workforce.

I think the Reinventing Government initiative is going to have more impact than most, but they put the cart before the horse. They really should have determined what functions were expendable, what programs can in fact be consolidated and devolved down to State and local government. Then after that hard work is done, and after they had consulted with the legislative branch and determined what changes in the Civil Service code are likely to be enacted, what programs are likely to be consolidated, what functions are likely to be eliminated, then they should have derived a bottom line of what savings can be achieved at the expense of what number of Federal employees can be cut.

But we went backwards in doing that, and again largely for political purposes. Although I applaud the people in the Vice President's office that have been making this effort. This is taking a little longer than you probably anticipated, Mr. Chairman, but I am going to lay out where I'm coming from on this because once we get into the nuts and bolts, we're not going to have an opportunity to do this.

I think that much change is going to be effected this year in this subcommittee. My own personal opinion is that not all of it is going to be positive. I think we have rushed to judgment, particularly with regard to the effectiveness of the Federal workforce. We are assuming now, it would seem, that virtually anything can be conducted more efficiently and effectively at the State and local level.

I think we give very little credit, for example, to OPM's ability to maintain the independence and integrity of the Federal workforce. I represent a fair number of Federal employees, about 70,000, and I've been impressed at the number of hard-core Republicans that work for the Federal Government, and are still working for the Federal Government even under the Clinton administration. The reason I've been impressed is because it underscores the independence of the Federal workforce. Not only do we not have the kind of patronage system we had during Warren Harding's era, but we also have a Federal workforce that prides itself on its political independence and its professionalism. It has become particularly more professional and capable over the last several years.

But ironically, that has correlated to gaining even less respect and appreciation on the part of the American public, and particularly on the part of politicians. So I think the inevitable is that the Office of Personnel Management is going to be cut even further, although I think a reduction of more than 1,000 people is substantial.

The Federal Government is going to continue to be cut. I hear Senator Roth saying that the 272,900 is just a start. I know that the Republican side has the votes now. And so we are going to have to make terribly compelling arguments to even moderate that effort, never mind stop it.

But we are prepared to do that, because I think that the Federal workforce, when you look at it with some depth and in fact with the breadth of responsibilities that we have given it to perform, I think you can only come away fairly impressed.

And we—so let's—we're ready to start. Let the debate begin. And I do appreciate the fact that you have been forthcoming with me, and I think you intend to deal with this side of the subcommittee with the same cooperative and constructive manner in which you have shown us so far. I very much appreciate that, particularly since we have virtually no staff resources available to us at all on this subcommittee. So that constructive cooperative attitude is going to be very important to us.

And I appreciate that for what you have shown today, and particularly what I know you will be showing in the future.

So thank you, Mr. Chairman.

[The prepared statement of Hon. James P. Moran follows:]

PREPARED STATEMENT OF HON. JAMES P. MORAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF VIRGINIA

Mr. Chairman: As you mentioned, this is the first in a series of oversight and exploratory hearings on the different functions of the federal civil service.

Much of the discussion today is in response to the ambitions goals set out by the National Performance Review Council Report on Reinventing Government and the subsequent actions of OPM to meet those goals. While I had strong objections to the workforce reduction targets established in the NPR report, I do support the ongoing effort to re-examine every aspect of the civil service and restructure the federal government to make it more responsive to its customers and constituents. It is our responsibility to ensure that this restructuring does not damage the foundations of our current civil service in its effort to renovate the structure as a whole.

We all know, that the government that governs closest to the people governs best. Accordingly, this Congress is examining a number of initiatives aimed at devolving federal programs to the states and local governments. Local governments are more accountable and more responsive to the needs of their communities than a large federal government where the decisions and decision makers are removed from the constituents they serve.

In a similar vein, we must look at ways to ensure that the remaining government functions are performed more efficiently and more responsively. The Office of Personnel Management is a large federal bureaucracy. It constituents, however, are not the 250 million Americans across this country, but rather the more than 2 million federal employees. These employees are also constituents of the individual personnel offices in their employing agencies.

As part of its civil service reform efforts, the Administration is proposing to devolve the daily personnel functions of OPM to those agencies that most directly serve the individual federal employees. This is an important reform because it is tied to the Administration's commitment to giving federal managers and executives greater authority of the staffing and personnel policies of their offices. Again, the government or personnel office that serves closest to the individual constituent is best suited to appraise the individual needs of that constituency. It is appropriate that we begin this dialogue today since civil service reform is arguably one of the

most important issues that will come before this Subcommittee during the 104th Congress.

As Mr. King will testify, the Office of Personnel Management has undergone a significant downsizing effort over the past 22 months. In April of 1993, OPM employed 6944 individuals. Today, they employ 5,341. While the President's FY1996 Budget Request does not project further reductions in the OPM workforce, it does foresee OPM being further reduced by a third in the future.

I understand some of the concerns being expressed by the different witnesses today. They raise issues that must be addressed by this subcommittee and the Administration as part of the civil service reform effort. I am particularly concerned about the impact this restructuring may have on smaller agencies that may not have the resources to absorb their new responsibilities. In addition, we must ensure that our restructuring efforts do not weaken the protections federal civil servants have against undue political influence. Mr. King is absolutely correct in arguing that we do not want a return to the spoils system that plagued this nation in the past. For this reason alone, we must ensure that the OPM of the future has more than a mere oversight or advisory role. We must not, however, defeat this opportunity to restructure the federal civil service outright.

Again, I am pleased to hear from the witnesses before us today and I look forward to this first part of an important review of the federal civil service.

Mr. MICA. Thank you, Mr. Moran, and again for your cooperation. I will just quickly respond by saying that normally not much would be done in the Civil Service area, but there are a lot of forces outside of this subcommittee that will drive us and drive our actions, and we do have tens of thousands, literally hundreds of thousands of individuals who have their lives, careers, and their well-being at stake in this process. We do need to approach this task together from a wise, astute, and well-motivated purpose. And I think we can do that.

We also discussed that not too many things, in most of the lifetime of this panel, were certain in life. You got a job and you stayed there if you were a civil servant or whatever, or went to work for some corporation. That has all dramatically changed in our lifetime. And now the Federal Government is about to realize that as far as its personnel is concerned. So we do have an important obligation.

With those comments I'll yield to my colleague, Mr. Bass.

Mr. BASS. Thank you very much, Mr. Chairman.

And as one who has the honor of serving in Congress as a freshman and has been called in my own district at the age of 43 an old war horse, I don't know whether I'm young or old, or where I stand.

However, it is indeed a tremendous honor and an opportunity for me to have been chosen to be vice chairman of this committee. And just because it represents a consolidation, if you will, of the former responsibilities of the Post Office and Civil Service Committee, does not reflect in any way a reduction in the significance that we as Members of Congress hold the Federal workforce.

And as Mr. Moran mentioned a minute ago in his opening remarks, Federal employees are Republicans and Democrats, they're liberals and conservatives and moderates and so forth. And we have an opportunity in this committee to make government work more efficiently and more effectively, more sensitively.

But that does not necessarily mean that cutting the size of the workforce will result in that objective. So we are going to work hopefully in a bipartisan fashion. I'm the newest member of this committee, and I suspect perhaps the only freshman on the committee, so I am going to ask for your forbearance as we go through

this process, and me asking questions that may require some catch-up on my part.

I've had the opportunity to talk with Mr. King prior to that meeting, and I appreciate the courtesy extended to me so I am up to speed. I'd also like to say that I have a Budget Committee meeting at 10 o'clock in which OMB Director Alice Rivlin is presenting the budget, and I feel it's important that I be there for a short period of time, so I am going to miss your testimony, but I have read it, and with that I'd like to thank the chairman and I will submit a short statement for the record.

Mr. MICA. And without objection, anyone who has additional comments or written testimony will be entered in the record.

[The prepared statement of Hon. Charles F. Bass follows:]

PREPARED STATEMENT OF HON. CHARLES F. BASS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW HAMPSHIRE

Mr. Chairman, I would like to take the opportunity to thank our witnesses for appearing at today's important hearing. Our nation's Civil Service is in a critical state of transition, and I am sure that the testimony that we are about to hear will be helpful in evaluating future policy decisions.

I believe that President Clinton should be commended for the commitment he has made to downsizing government. The Office of Personnel Management will play a crucial role in this effort, both in serving to oversee the transition of the Civil Service and in creating a blueprint for other agencies to follow through its own downsizing.

However, I believe that Congress, and indeed this Committee, has a role in ensuring that this process is done right. Reducing our Federal workforce does not have to mean that we reduce quality. Cutting the Office of Personnel Management does not have to mean a disruption of services to Federal employees and retirees. The need for Congressional oversight stems from the fact that a true reinvention of government will impact all of our constituents. That much said, I wish to assure those representatives of the Executive Branch here today that I do not interpret Congress' obligation in this respect as a license for micromanagement.

In this spirit, I look forward to today's testimony. I thank the Chairman.

Mr. MICA. Mr. Mascara.

Mr. MASCARA. Yes, thank you very much, Mr. Chairman.

I'm delighted to serve, delighted to serve on this committee. I am pleased to be able to participate in the hearing set to review the administration's proposal to restructure and further downsize the Office of Personnel Management.

This is the first official business of the subcommittee of this session and I'm hopeful that today's meeting and hearing will prove to be productive and provide us all with insight and knowledge that we'll need to oversee the evolution of OPM.

Let me start by mentioning that I was involved in reinventing government before the term became popular. Back in the early 1980's, after being elected chairman of the Board of County Commissioners of Washington County, PA, I found myself confronted with a county government in need of thorough review and a bit of overhaul. Somewhat like what Ross Perot said, my fellow commissioners and myself "lifted the hood" and we got to work. Believe it or not, we developed the county's first organizational chart. And over a course of several years, we reorganized the county's departments and agencies, consolidating functions where appropriate, and downsizing where needed. But not without sensitivity. A lot of the downsizing was achieved through retirements and consolidations.

And I am here to say that as a union man, I've been termed that, over the course of time segments of the county's workforce were unionized, and working with union leadership, we were able to establish a system of fair wages and benefits in return for getting the job done. And I mean done correctly.

I must humbly say, by the time I left, which was in December, the engine of government in Washington County was humming along at a good clip. The point is, I know something about downsizing. And these numbers are not astronomical, but everything is relative.

When I took office in 1980, the County of Washington had 1,100 employees. And when I left in December of last year, we had 800. That's after assuming some 15 years of Federal and State unfunded mandates, which I believe all of you are familiar with. But again, and the Director and I talked about being sensitive to the problems created with downsizing and displacing employees.

First, let me say that it's probably wise to decentralize as much as possible the process of actually hiring and firing the workforce. The Department of Agriculture's county extension in Washington County, in southwestern Pennsylvania, knows more about local crops and the needs of area farmers than someone sitting behind a desk at OPM developing a two-page detailed job description. Really doesn't cut the mustard as far as we're concerned. The local agent, as my grandchildren would say, is plugged in and knows who in the local workforce can and cannot get the job done. The agent should have the opportunity to make this kind of personnel decision.

Second, it is probably not wise to decentralize payrolls, benefits, or the Federal retirement system. A big department like the Department of Defense clearly has the ability, the know-how, and the computer capacity to develop a system to handle the hundreds of calculations and key strokes needed to develop a payroll system. However, the reality is that many other smaller departments and agencies do not. Wisdom, common sense, and efficiency probably dictates that this function should remain centralized.

While I understand Federal retirees are frustrated and angry about trying to get through to the OPM's phone lines, I think this is the type of operation that should be improved, not thrown out.

Finally, throughout the process of reorganizing OPM, we must not fail to remember why a Civil Service system was established in the first place. As Director King points out in his testimony, about the middle of the 1800's the good citizens of this country decided that politics and the spoil systems were not producing a professional government workforce and demanded a system be developed based on true merit and ability.

Thus evolved OPM, with its employment tests and classification systems for Federal workers. Granted over the years things got out of hand and oftentimes got off the course. And oftentimes we look at 10,000 pages of the Federal Personnel Manual or a lengthy Standard Form 171, and some of you would agree that causes a problem.

That is why OPM has rightfully been making efforts over the past 2 years to tighten its ship. While I am sure there is still room for improvement, the bottom line is our Federal workforce must re-

main immune to political pressure. Someone somewhere has to set down guidelines and enforce them to ensure that the workers hired are qualified and can get the job done. This job should probably fall to a reorganized OPM.

The point I am trying to make is that our country has struggled too long and too hard to keep politics out of its general government workforce to change course now. I do not think that is what the American people expect or demand from our government.

Thank you, Mr. Chairman.

[The prepared statement of Hon. Frank Mascara follows:]

PREPARED STATEMENT OF HON. FRANK MASCARA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF PENNSYLVANIA

Mr. Chairman, I am pleased to be able to participate in this hearing set to review the administration's proposal to restructure and further downsize the Office of Personnel Management (OPM).

This is the first official business of the Subcommittee this session and I am hopeful today's hearing will prove to be productive and provide us all with the insight and knowledge we will need to oversee the evolution of OPM in the weeks and months ahead.

Let me start off by mentioning that I was involved in reinventing government before the term was popular. Back in the 1980's, after being elected chairman of the Board of County Commissioners of Washington County, Pennsylvania, I found myself confronted with a county government in need of thorough review and a bit of an overhaul.

In the lingo of Ross Perot, my fellow commissioners and I "lifted the hood," and got to work. Believe it or not we developed the county's first organizational chart and over the course of several years, reorganized the county's departments and agencies, consolidating functions where appropriate, and downsizing where needed.

I am, as they say, a "union man" and over the course of time, segments of the county workforce were unionized. Working with the union leadership, we were able to establish a system of fair wages and benefits in return for getting the job done, and I mean done correctly!

I must humbly say that by the time I left last December, the engine of government in Washington County was humming along at a good clip.

The point is, I know something about downsizing, reorganizing and reinventing government. When I joined the county government in 1980, we had approximately 1,100 workers and when I left there were 800, and that's after 15 years of assuming unfunded mandates from the Federal Government. My experience has also given me insight into the reason why governments all across the country have turned to a civil service system as a way to hire, fire and promote their workers. Over the years, I have learned some general lessons that I think are applicable in the case of OPM.

First, it is probably wise to decentralize as much as possible the process of actually hiring and firing the workforce. The Department of Agriculture's County Extension Agent in southwestern Pennsylvania certainly knows more about the local crops and needs of area farmers than someone sitting behind a desk at OPM developing a two-page detailed job description. The local agent, as my grandchildren would say, is "plugged in" and knows who in the local workforce can and cannot get the job done. The agent should have the authority to make this kind of personnel decision.

Second, it is probably not wise to decentralize payrolls, benefits or the Federal retirement system. A big department like the Department of Defense, clearly has the ability, the know-how and the computer capacity to develop a system to handle the hundreds of calculations and key strokes needed to develop a payroll system. However, the reality is that many other smaller departments and agencies do not. Wisdom, common sense and efficiency probably dictates that this function should remain centralized. While I understand Federal retirees are frustrated and angry about trying to get through OPM's phone lines, I think this is the type of operation that should be improved, not thrown out.

Finally, throughout the process of reorganizing OPM, we must not fail to remember why a civil service system was established in the first place. As Director King points out in his testimony, about the middle of the 1980's, the good citizens of this country decided that politics and the spoils system were not producing a professional government workforce and demanded a system be developed based on true merit and ability, thus, evolved OPM with its employment tests and classification

system for Federal workers. Granted, over the years things got out of hand. Anyone who has thumbed through the 10,000 page Federal Personnel Manual or rolled out the lengthy Standard Form 171, would certainly agree. That is why OPM has rightfully been making efforts over the past two years to tighten its ship.

While I am sure there is still room for improvement, the bottom line is our Federal workforce must remain immune to political pressure. Someone, somewhere has to set down guidelines and enforce them to ensure that the workers hired are qualified and can get the job done. This job should probably fall to a reorganized OPM.

The point I am trying to make is that our country has struggled too long and too hard to keep politics out of its general government workforce to change course now. I do not think that is what the American people expect or demand from their government.

Thank you, Mr. Chairman.

Mr. MICA. Thank you, Mr. Mascara, and we look forward to your leadership and also the experience you bring to this panel.

I hope our witnesses and other folks here today will appreciate that this is the first time that members of the panel have had an opportunity to really set on the record some of their comments. And we appreciate hearing from them and the other members of the panel.

At this time we have our first witness, Mr. Jim King, who is the Director of the Office of Personnel Management. Mr. King, I'm going to call on you first, if you would, to introduce the people on the panel.

And then it's the custom and practice of this committee, which is an oversight committee and we've reaffirmed this with the Chair and the other Chairs of the subpanels, that we will swear in all of the witnesses in all of our hearings, since we have an oversight responsibility.

So if you would introduce the individuals with you and then I'll ask you to stand and be sworn in.

Mr. KING. All right. From left to right, our left, Mr. Chairman, we have Len Klein, who is the Associate Director of Employment Service. To my immediate right, Ms. Patricia Lattimore, our Associate Director of our Investigation Service. To her immediate right, Ms. Carol Okin, Office of Merit Systems Oversight and Effectiveness. And to her immediate right, Ed Flynn, who is the Associate Director of the Retirement and Insurance Service.

And would you like us to rise now, Mr. Chair?

Mr. MICA. If you could, if you're going to testify.

[Witnesses sworn].

Mr. MICA. Please let the record reflect that they answered in the affirmative.

Mr. KING. To the best of our abilities, Mr. Chairman. I wouldn't suggest that it's holy writ.

Mr. MICA. We're pleased to hear from you, and I don't think it could be more fitting to hear from you on any other day but today, the day after the administration has released its budget.

So without further ado, we give you the floor.

STATEMENT OF JIM KING, DIRECTOR, OFFICE OF PERSONNEL MANAGEMENT, ACCOMPANIED BY LEN KLEIN, ASSOCIATE DIRECTOR, EMPLOYMENT SERVICE, PAT LATTIMORE, ASSOCIATE DIRECTOR, INVESTIGATION SERVICE, CAROL OKIN, OFFICE OF MERIT SYSTEMS OVERSIGHT AND EFFECTIVENESS, ED FLYNN, ASSOCIATE DIRECTOR OF INSURANCE SERVICE, AND GILBERT SEAUX, CHIEF FINANCIAL OFFICER

Mr. KING. Thank you, Mr. Chairman, and members of the subcommittee. I want to thank you for this opportunity to meet with you all. I hope your reference to Mr. Harding was heartening, because I know you recollect it and I would submit that I read by your comments that yours too would be a Velvet Revolution. And I still view myself as being part of the center.

I did want to thank you for the specific questions that you raised with the Office of Personnel Management, OPM. Let me first explain that there has already been significant downsizing since I arrived at OPM 22 months ago. The number of employees at OPM on April 1, 1993, was 6,944. As of February 1 of this year, that figure was 5,341. That's a reduction of 1,603 employees, or 23.1 percent of all the people who were on the payroll.

Mr. MORAN. That's impressive.

Mr. KING. So the figures do include something else, too. It's about a 40.4-percent reduction in our GS–13 to 15 supervisors and middle managers, I might add.

In addition, Mr. Chairman, last December 19 at a White House meeting with the Vice President, the Director of OMB and other agencies' heads, we announced that as part of the second phase of reinvention, most of OPM's training and investigation functions will in the near future be privatized.

The two units that are scheduled to be privatized are budgeted for fiscal 1996 at about $164 million. These activities are financed substantially with reimbursements from the agencies, a revolving fund as it were.

Let us review our remaining programs which are budgeted at about $250 million, beginning with the Retirement and Insurance Service, or RIS. By the way, Mr. Chairman, we've just gone through our own redesign, so we're using some new acronyms. RIS administers the benefits that we provide to about 10 million Government employees, annuitants, and their families.

Among the programs that our RIS administers is the Federal Employees Health Benefits Program, which provides health insurance coverage to almost every employee and retiree of the Federal Government, Congress, and the Federal Court system, and in most cases their families. FEHBP is widely regarded as one of the best run public health care programs in the world. Perhaps it could be administered somewhere other than OPM, but it has done extremely well with us for almost 35 years, and I would recall the old saying, "if it ain't broke, don't fix it." I would submit we fall into that category, Mr. Chairman. But that will be for the committee's determination.

Now I would like to discuss OPM's core mission. First, permit a bit of history that may be helpful in understanding that mission. As was suggested by the committee itself, in the mid-19th century, really from the founding of our republic, our government operated

under a spoils system, with jobs bought and sold like used cars. And by the way, with the same standard of excellence all too often.

Perhaps you've heard of the time when President Lincoln was besieged by job seekers, and by the way, what virtually every President up to the coming of the Civil Service spent one half of his time dealing with job seekers exclusively, and that was before the Secret Service, so you couldn't use security as a screen.

And at this time, Mr. Lincoln was suffering from smallpox. And he told his secretary, tell all the office seekers to come in here to my room at once. I finally have something I can give them all.

Efforts at reform of the spoils system got nowhere until the assassination of President Garfield by a disgruntled office seeker. And this created a national outrage that led to congressional passage of the Civil Service Act of 1881.

The act created the merit system, which provided for hiring based on examinations, not on who you knew, but what you knew. I would like to suggest, Mr. Chairman, that this was just the beginning. It covered several thousand people. And what it did over the next 100 plus years was to bring additional employees under the merit system. So it didn't happen all at once. It evolved.

For more than a century, with bipartisan support, the merit system has expanded to cover not only hiring and promotions, but also to promote fairness to all applicants. This century-old bipartisan merit system has given us in my opinion the best civil service in the world.

To preserve and protect the principles of this merit system is OPM's core mission, and we now have four units that contribute to that goal. The Employment Service develops generic employment policy and qualification standards, works with agencies on hiring that is delegated to them, and uses the latest technology to make job information easily available to the public. It also works with agencies on downsizing.

The Human Resource Systems Service sets standards and provides services to help ensure that agencies have effective, merit-based personnel systems, with regard to pay and job classification, performance management, and labor management relations.

The Office of Executive Resources, which includes the Senior Executive Service, the Federal Executive Institute, and the Management Development Centers, provides executive training and leadership for management in government.

The Office of Merit Systems Oversight and Effectiveness oversees merit standards across government. The goal of these programs is a government that is cost efficient and that will never slip back into the spoils, corruption, and discrimination of the past.

Against that background, Mr. Chairman, let me address the specific questions you raised in your letter to us. Question: Can each agency or department effectively manage its personnel functions without strong direction from a central personnel agency? Mr. Chairman, we believe that recruitment and hiring can be carried out by the agencies, under merit principle guidelines set by OPM. The agencies would have the option of carrying out their own programs or contracting with OPM, or others, to carry them out. Many agencies find it more cost efficient to use our services, rather than create new programs of their own. Once again, they would have the

freedom to make choices at the operational level, but with a center and a central framework in which to do that work.

Question: Which activities should remain centralized and which can be safely delegated away? For the most part, personnel system design, administration, and decisionmaking should be and can be delegated to the agencies. Much of it already has.

We need more decentralization of program design and administration, to provide systems that better meet agency needs. Certain key functions should remain at OPM for the sake of cost effectiveness and economies of scale, governmentwide equity and merit system protection. These include governmentwide merit system policy and oversight, central job information, centralized personnel data, and pay and benefits administration. Job information should remain at OPM so applicants need not inquire at scores of agencies to find out about openings.

Question: Who will ensure the integrity of centralized information gathering and data bases? OPM and its predecessor, the Civil Service Commission, have since 1972 operated a central personnel data file. This automated system provides key data about the Federal workforce to Federal agencies, Congress, the White House, and the public. It's an excellent system and I once again would invoke the "ain't broke, don't fix it" observation.

Question: Who is responsible for tracking programs toward meeting the administration's personnel reduction targets? Simply put, the Office of Management and Budget.

Question: Can retirees and others leaving government service be properly served by a smaller OPM? Mr. Chairman, I believe we cannot afford a smaller OPM with regard to retirement and insurance. A 1994 survey of customer satisfaction with our retirement services shows serious declines from our 1990, 1991 satisfaction levels, when our retirement staffing levels were about 10 percent higher than today.

During that period, the number of annuitants we served has increased by 150,000, or about 7 percent of our base. And our number of telephone inquiries has roughly doubled from 400,000 to 800,000 each year. That is why the administration's downsizing plans do not include our Retirement and Insurance Service. In fact, the 1996 budget seeks to restore the 10 percent retirement staff losses of the past 4 years. And we are doing that by reallocating existing money and staff. If you will, it's coming out of our hide.

Question: Can we retain the best and the brightest workers under the current RIF procedures? Can we reform the process to balance management needs while protecting employees' rights? The answer is that, under the law, current RIF procedures consider both qualifications and performance. But the current system ranks employees with similar qualifications by a rigid mechanistic formula that weighs veterans preference and seniority, which to a degree includes performance ratings.

Can we reform this process? It is possible, but I would have to say it would be difficult at a time when so many employees feel vulnerable to RIF's. The current system is a balance between the interests of management, employees, and veterans.

Shifting the balance at a time when the threat of RIF's is great would most likely meet with strong resistance from our employees

across government and their unions, who might feel that we were changing the rules in the middle of the game.

I'd like to thank the subcommittee for its attention. I know you have additional questions and we'll try to respond.

Mr. MICA. Thank you, Mr. King.

[The prepared statement of Mr. King follows:]

PREPARED STATEMENT OF JIM KING, DIRECTOR, OFFICE OF PERSONNEL MANAGEMENT

Mr. Chairman, and members of the Subcommittee, I thank you for this opportunity to meet with you.

I also thank you, Mr. Chairman, for the specific questions you raised about downsizing at OPM.

To answer your questions, I must first explain that there has already been significant downsizing since I arrived at OPM twenty-two months ago.

The number of employees at OPM on April 1, 1993, was 6944. As of February 1 of this year, that figure was 5341. That is a reduction of 1603 employees or 23.1%.

Those figures include a 40.4% reduction in GS 13 to 15 supervisors or middle managers, I might add.

In addition, Mr. Chairman, last December 19, at a White House meeting with the Vice President, the director of OMB, and other agency heads, we announced that, as part of the second phase of reinvention, most of OPM's training and investigations functions will, in the near future, be privatized.

The two units that are scheduled to be privatized are budgeted for fiscal 1996 at about $164 million. These activities are financed entirely with reimbursements from the agencies. Our remaining programs are budgeted at about $250 million.

Let me now review those remaining programs.

First, there is the Retirement and Insurance Service (RIS), which administers the benefits that are provided to about ten million government employees, annuitants, and their families.

Among the programs that RIS administers is the Federal Employees Health Benefits Program, which provides health-insurance coverage to almost every employee and retiree of the Federal Government, Congress, and the Federal court system.

FEHBP's emphasis on competition, cost-cutting, and customer choice have made it one of the best run and least expensive public health-care programs in the world.

I will not say to you that the FEHBP could not be administered somewhere other than OPM. But it has done extremely well with us, and I would recall the old saying, "If it ain't broke. don't fix it."

I might also note that the Administration's fiscal 1996 budget proposes additional resources for our retirement and insurance operations, all intended to improve our customer service.

Now I would like to discuss OPM's core mission.

First, permit me to give you some history that may be helpful in understanding that mission.

In the mid-19th century, our government operated under a spoils system. Whichever party controlled the White House controlled virtually all executive-branch jobs and they were bought and sold like used cars.

Perhaps you have heard the story of the time President Lincoln, beseiged by jobseekers and suffering from smallpox, told his secretary, "Tell all the office-seekers to come in at once, for now I have something I can give them all!"

Citizen demands for reform of the spoils system got nowhere until the assassination of President Garfield, by a disgruntled office-seeker, created the national outrage that led to Congressional passage of the Civil Service Act of 1881.

This act created the merit system, which provided for hiring based on examinations—not on who you knew but what you knew.

For more than a century, with bipartisan support, the merit system has expanded to cover not only hiring and promotions, but also to promote fairness to all applicants.

The merit system also uses training, incentives and recognition, and other means to encourage excellence in government.

I submit to you, Mr. Chairman, that this century-old, bipartisan merit system has given our nation, in my opinion, the best civil service on earth.

To preserve and protect the principles of this merit system is OPM's core mission, and we now have four units that contribute to that goal.

The Employment Service develops generic employment-policy and qualification standards, in accordance with merit principles, manages the hiring system, works with agencies on hiring that is delegated to them, and uses the latest technology

to make job information easily available to all our citizens. It also assists agencies with the challenges of downsizing.

The Human Resources Systems Service sets standards and provides services to help ensure that agencies have effective, merit-based personnel systems with regard to pay, job classification, performance management, and labor-management relations.

The Office of Executive Resources, which includes the Senior Executive Service, the Federal Executive Institute, and the Management Development Centers, provides executive training and leadership for managing the government.

Finally, we have our Office of Merit Systems Oversight and Effectiveness, which oversees merit-standards all across government.

The goal of these programs is a government that is cost-efficient and that will never slip back into the spoils, corruption and discrimination of the past.

Against that background, Mr. Chairman, let me address the specific questions you raised in your letter.

Question: "Can each agency and department effectively manage their personnel functions without strong direction from a central personnel agency?"

Mr. Chairman, we believe that recruitment and hiring should be carried out by the agencies, under merit-principle guidelines set by OPM. The agencies would have the option of carrying out their own programs or contracting with OPM or others to carry them out. Many agencies find it more cost-efficient to use our services rather than create new programs of their own.

Question: "Which activities should remain centralized and which can be safely delegated away?"

For the most part, personnel system design, administration, and decision making should be delegated to the agencies. Much of it already is. We need more decentralization of program design and administration to provide systems that better meet agency needs.

Certain key functions should remain at OPM for the sake of cost-effectiveness and economies of scale, government-wide equity, and merit-system protection.

These include government-wide merit-system policy and oversight, central job information, centralized personnel data, and pay and benefits administration.

Job information should remain at OPM so applicants need not inquire at scores of agencies to find out about openings.

The automation and technology that is revolutionizing human resources management—and saving many millions of dollars—can also be centrally coordinated so that every agency doesn't have to reinvent the wheel or invest in costly technology that can be developed cooperatively.

Question: "Who will ensure the integrity of centralized information gathering and databases?"

OPM and its predecessor, the Civil Service Commission, have since 1972 operated the Central Personnel Data File. This is an automated, user-friendly system that provides key data about the Federal workforce to Federal agencies, Congress, the White House and the public. It is an excellent system and I would again invoke the "ain't broke / don't fix" rule.

Question: "Who is responsible for tracking programs toward meeting the Administration's personnel reduction targets?"

The answer is the Office of Management and Budget.

Question: "Can retirees and others leaving government service be properly served by a smaller OPM?"

Mr. Chairman, I strongly believe we do not need and cannot afford a small OPM with regard to retirement and insurance. A 1994 survey of customer satisfaction with retirement services shows serious declines from 1990–91 satisfaction levels, when our retirement staffing levels were about 10% higher than today.

During that period, the number of annuitants we serve has increased by 150,000, or about 7%, and our number of telephone inquiries has roughly doubled, from 400,000 to 800,000.

That is why the administration's downsizing plans do not include our Retirement and Insurance Service. In fact, the 1996 budget seeks to restore the 10% retirement staff losses of the past four years. And let me point out that I'm doing this by reallocating existing money and staff.

In short, we very much share your concern about delivering excellent service to our customers.

Question: "Can we retain the best and the brightest workers under current RIF procedures? Can we reform the process to balance management needs while protecting employee rights?"

Mr. Chairman, under the law, current RIF procedures consider both qualifications and performance. But the current system ranks employees with similar qualifica-

tions on a rigid, mechanistic formula that weighs veterans preference and seniority, which to a degree includes performance ratings.

Can we reform this process? It is possible, but I have to say it would be difficult at a time when so many employees feel vulnerable to RIFs.

The current system is a balance between the interests of management, employees, and veterans. Shifting the balance at a time when the threat of RIFs is great would most likely meet strong resistance from our employees and their unions, who might feel we were changing the rules in the middle of the game.

I thank the Subcommittee for its attention. Now let me take your questions.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY THE CIVIL SERVICE SUBCOMMITTEE TO JIM KING

FEDERAL EMPLOYEES HEALTH BENEFITS PROGRAM

Question 1. Many experts consider the Federal Employees Health Benefits Program (FEHBP) to be a successful example of a large group health plan. What are your general views about this program and what changes, if any, do you think should be made to the FEHBP?

Answer. The Federal Employees Health Benefits (FEHB) Program is a $16 billion health insurance program, administered by only 154 people in the Office of Personnel Management. We contract with 345 private insurance carriers to cover over four million enrollees and their dependents. Certain program activities are carried out with the support of agency and carrier personnel, but the overall number of people involved in administering the program is still small. This operation is a remarkable private-public partnership.

The FEHB Program offers coverage with no restrictions because of age or pre-existing conditions. During annual open seasons employees can choose from a variety of plans, including indemnity type plans and health maintenance organizations that offer a variety of benefit packages at varying prices.

We are regularly surveying our customers to gain a better understanding of their expectations for their health insurance program and how well we and the insurance carriers do in meeting those expectations. Although there are always areas that can be improved, overall the FEHB Program enjoys good reviews from those it is designed to serve. We have no recommendations for major program changes at this time.

Question 2. A principal factor in this perceived success appears to be the delicate balancing of responsibilities between the private sector and the government, together with strong competitive forces fueled by individual consumer choice. Do you agree with this characterization of the success factor?

Answer. We agree that the partnership between the Government and the private sector, combined with the consumer choice to create competition among the private sector plans, contributes much to the success of the FEHBP.

Question 3. Some observers have suggested a recent tendency on the part of OPM toward micro-management of the FEHBP. Some may go further and suggest a certain governmental intrusiveness in the form of ultimatums. What is your response to these observations?

Answer. The Office of Personnel Management has focused with renewed intensity on contract oversight and compliance issues raised by Congress, OMB, and GAO. We are dedicated to improving the administration of the program, the benefit packages available through the program, and the level of customer service provided. We do not think this oversight and compliance can fairly be characterized as micromanagement, instead, it is the necessary prudent management required in any program involving the expenditures of public funds.

Question 4. What is your view of the appropriateness with which OPM has wielded its regulatory authority? Is the agency currently involved in any disputes with carriers or providers concerning OPM's regulatory role?

Answer. We are acutely aware of the need to use our regulatory authority in a very judicious manner in order to balance the sometimes competing demands of our divergent responsibilities, e.g., as fiduciary, as employer, as program administrator, and as business partner.

At this time, we are not involved in any disputes with providers concerning our regulatory role. We have improved communications with the carriers through an ongoing series of formal conferences, informal meetings, and teleconferences. We are optimistic that these efforts will reduce potential conflict in regard to our regulatory authority and other oversight and administrative issues.

Question 5a. Please explain the factors and considerations that led to the following FEHBP decisions by OPM: The issuance of the December 5, 1994 interim regulation asserting unobstructed discretion on the part of the OPM Director with regard to the acceptance of applications for new HMO's and the annual changes in benefits.

Answer. In the supplementary information section of the December 5, 1994, interim regulation, we indicated our intention not to accept new plan applications or benefit changes for 1996. Based on the comments we received, we concluded that our time frames were too compressed to allow a thorough review of all the consequences of our decision. As a result, we decided to accept both applications and benefit change proposals for 1996. In conjunction with that decision, we published a notice of proposed rule-making with a 60-day comment period so that all concerned parties would have ample time to make their views known.

Both the December 5, 1994, interim regulation and the March 22, 1995, notice of proposed rule-making clarify our policy on accepting applications from HMO's for participation in the FEHB Program. Our position is that the Director of OPM has the authority each year to determine whether it would be beneficial to enrollees and the program to invite HMO's to apply for participation.

Our original decision for 1996 was based in large measure on our need to reprogram resources in order to focus on contract oversight and compliance issues raised by the Senate Governmental Affairs Committee's Permanent Subcommittee on Investigations, as well as by OMB and GAO. We thought we would be better able to focus on these issues if we could moderate our workload in connection with the open season.

While we are doing everything we can to streamline our operations, it is possible that future circumstances that we cannot now foresee might again suggest that it would be in the best interest of the FEHB Program and the enrollees not to accept new plan applications for a particular contract year. A specific provision giving the Director discretion on whether to invite benefit change proposals has been in our regulations for many years.

We look forward to receiving comments on our proposed regulation. We also have invited the HMO industry to give us suggestions on how we can make the application review process more efficient.

Question 5b. Please explain the factors and considerations that led to the following FEHBP decisions by OPM: The mandate to provide coverage for Autologous Bone Marrow Transplant (ABMT) treatments.

Answer. Prior to September 1994, Autologous Bone Marrow Transplant (ABMT) treatment was not universally available under the FEHB Program. We committed to reviewing the coverage of High Dose Chemotherapy/Autologous Bone Marrow Transplants for breast cancer under the FEHB within sixty days of our testimony before Congress in August 1994. We carefully studied and assessed the recommendations of the National Cancer Institute (NCI) and other authorities, the practices of other large employers and insurance companies, and the number of FEHB plans that proposed to add such coverage in 1995 on their own initiative. We concluded that, as an employer, we wanted to purchase coverage from all FEHB plans for HDC/ABMT for certain conditions.

In September 1994, OPM required immediate coverage by all FEHB plans of High Dose Chemotherapy/Autologous Bone Marrow Transplants (ABMT) for the treatment of breast cancer, multiple myeloma, and epithelial ovarian cancer, in addition to the other conditions for which it is considered standard treatment, including testicular cancer. Plans were allowed to place restrictions on the coverage (such as requiring that the services be obtained in specifically approved medical centers). However, plans could not limit the coverage to services obtained in randomized clinical trials.

This decision was made near the end of the negotiation cycle for rate and benefit changes for the 1995 contract year. Requiring this benefit did not affect the premium rates previously agreed upon between the carriers and OPM for the 1995 contract year. We will make appropriate adjustments for community-rated plans from contingency reserves in the Employees Health Benefits Fund during the rate reconciliation process in 1995. Any increase in claims due to this decision in experience-rated plans results in immediate payments from the Fund.

Question 5c. Please explain the factors and considerations that led to the following FEHBP decisions by OPM: The planning and execution of the 1994 "Customer Satisfaction Survey" including the particular contracting arrangements with the publishers of Checkbook.

Answer. The Center for the Study of Services (CSS), the firm that publishes Checkbook, approached OPM in 1994 with a suggestion that we cooperate in a customer satisfaction survey of our FEHB Program enrollees. As a result of this cooper-

ative effort, we provided our customers, the enrollees, with a survey booklet for their use during the 1994 open season. We had a memorandum of understanding with CSS, rather than a procurement contract. GAO subsequently looked at the arrangement and concluded that it should have been structured as a contract for services subject to the Federal procurement laws. While we continue to believe that our arrangement with CSS was proper, in order to eliminate any controversy, the 1995 survey vendor will be selected in accordance with the Federal Acquisition Regulation.

Question 5d. Please explain the factors and considerations that led to the following FEHBP decisions by OPM: The application of the provisions of the Omnibus Budget Reconciliation Act of 1993 regarding the use of Medicare Part B limits to physician services for FEHBP enrollees age 65 and over who do not participate in the Medicare supplemental coverage program.

Answer. Section 11003 of the Omnibus Budget Reconciliation Act (OBRA) of 1993 specifies that for certain physician services provided on or after January 1, 1995, to retired enrolled individuals in FEHB fee-for-service plans who are age 65 or older and not covered by Medicare Part B, physicians' charges and FEHB plans' benefits payments cannot exceed the limits established under Medicare Part B.

The provision requires the Department of Health and Human Services (HHS) to provide the plans with the Medicare Program information they need to determine the limits on physicians' charges and the plans' benefit payments. The Medicare Program information the plans need are (1) the fee schedule amounts and limiting charges for physicians' services, and (2) the identity of Medicare participating physicians and suppliers. OPM contacted HHS in October 1993, to begin working with them on the implementation of this law. During our discussions with HHS, and in particular the Health Care Financing Administration (HCFA), we became aware that HCFA would not be able to provide the necessary Medicare Program information because the information is held by its regional Medicare carriers and is not centralized within HCFA.

In January 1994, HCFA identified the Travelers Insurance Company (now MetraHealth) as the most appropriate organization to disseminate the information concerning the fee schedule amounts, limiting charges, and Medicare participation status of physicians and suppliers. Travelers was already paying Medicare claims on a national basis for the Railroad Retirement Board and has the most complete and up to date list of the Medicare participation status of physicians and suppliers.

OPM worked with HCFA and Travelers to ensure that FEHB plans would be offered the opportunity to contract with Travelers to receive the necessary Medicare Program information. All of the plans implementing the 1993 OBRA provision decided to contract with Travelers. It is our understanding that the arrangement with Travelers has succeeded in providing the plans the information they need to correctly process and pay claims under the 1993 OBRA provision.

Question 6. Are there any FEHBP functions performed by OPM staff that could be performed more efficiently by the private sector?

Answer. Because the FEHBP purchases health benefits coverage from private sector health plans, the vast majority of the administrative services of the program are already performed by the private sector. Moreover, a private firm has conducted the annual health benefits "open season" for annuitants for over 10 years. It prints and mails the open season materials to annuitants and processes their requests for additional information, enrollment changes, and changes of address. It is able to use technology and processes unavailable to OPM, at significant cost savings.

In FY 1993 (the most recent year for which we have complete financial data) OPM's cost of administering the FEHBP was only 0.2 percent of the total program costs. The administrative charges reported by the fee-for service carriers amounted to another 5.5 percent. We do not have data available for HMO's because they are not required to track their administrative costs separately.

Recently we decided to use a private contractor to perform certain medical reviews we previously did in-house. This step underscores our commitment to finding private sector solutions whenever we can.

Generally, though, we believe it is important to keep in mind that health insurance, like life insurance and retirement, is an integral part of the compensation package that the Federal Government as an employer uses to recruit and retain the quality workforce it needs to do its work. Substantial further privatization risks severing the critical link to the Government as employer. Since by any standard OPM has been very efficient in performing its role, nothing would be gained by altering the structural relationships that are now in place, and an important element could be lost.

Question 7a. Are Medical Savings Accounts available to federal employees through the FEHBP?

Answer. No.

Question 7b. If not, (1) Many believe Medical Savings Accounts offer distinct advantages over ordinary medical insurance and managed care programs by providing first dollar coverage and catastrophic coverage while simultaneously leaving medical decisions to the patient and doctor and creating incentives for the patient to be cost-conscious. Has OPM considered offering Medical Savings Accounts through the FEHBP? If not, why not? Will you be studying this issue in the future? (2) If you considered offering Medical Savings Accounts through the FEHB, but rejected that option, please explain why.

Answer. Current tax law provides that employers may establish Flexible Spending Accounts for health care expenses for their employees on a pretax basis. These accounts are in addition to, not in lieu of, comprehensive health insurance. The funds may be used to pay health insurance premiums, deductibles, and/or coinsurance. Anything left in the account at the end of the year is forfeited. OPM has considered proposing legislation that would enable the Federal Government to exercise that option and has rejected it because the outcome would be a cost rather than a savings to the Government.

Funds deposited in Flexible Spending Accounts are not considered to be taxable income. Therefore, there is a savings to both the employer and the employee in the private sector. Specifically, the employer benefits because the base salary on which it must contribute FICA taxes is reduced. The employee benefits because both FICA taxes and income tax are based on a lower salary amount.

The Federal Government as employer would not benefit because FICA taxes are considered income to the Government. In addition, unlike private sector employers, the Government also loses the income tax revenue that would otherwise be paid by the employee. As a result of these considerations, Federal employees, unlike many workers in the private sector, have never been given the opportunity to use Flexible Spending Accounts.

Medical Savings Accounts are based on a slightly different concept. We are monitoring several bills now pending in the Congress to amend the Internal Revenue Code to provide an opportunity for employers to establish Medical Savings Accounts for employees on a pretax basis or for individuals to establish them for themselves. Under these bills, health care coverage would be provided through a combination of a savings account and catastrophic health insurance. It is too early to determine the specific provisions likely to be enacted into law. Once we know the parameters, we can do an analysis to see if there would be a potential savings to the Government and advantages for Federal employees and their families.

Question 8. Do you survey federal employees to determine their level of satisfaction with FEHBP? If you do, how frequently are these surveys performed? Would you please provide us with the results of the last five surveys.

Answer. Yes, we do survey Federal employees to determine their level of satisfaction with the FEHB Program. We are in the process of accepting proposals for the 1995 FEHB Program Customer Satisfaction Survey. This survey was designed to measure enrollees' satisfaction with such aspects of their health insurance plan as access to care, quality of care, doctors' availability, coverage, and adequacy of information and customer service. We will use the same survey questionnaire as last year and will administer it in the same manner. We think that it is important to have consistency so that we can track trends and monitor the performance of the carriers over time.

In addition to the survey mentioned above, we have completed or are undertaking the following surveys:

- A survey of FEHBP enrollees concerning the availability and adequacy of FEHBP open season materials,
- A survey of agency benefits officers concerning the adequacy of FEHBP materials and processes, and
- A survey of FEHBP enrollees who file disputed claims with OPM, so that we may assess our performance in handling such claims.

We are attaching the results from our most recent surveys for your review. [See Tab A.]

Question 9. What percentage of Federal employees' insurance premium goes into management of the program and other administrative costs? Does this figure include the carriers' management and administrative costs? If not, what is the cumulative percentage that goes to both the government's and the carriers' management and administrative costs?

Answer. In FY 1993 (the most recent year for which we have complete financial data), the proportion of program costs devoted to administering the program was 5.7 percent.

This percentage recognizes that 2 components comprise the administrative cost structure of the program:

- The expenses which the Office of Personnel Management incurs in administering the program: $22 million or 0.2 percent of the total.
- The expenses for administration as classified and reported by carriers participating in the program on a fee-for service basis: $803 million or 5.5 percent of the total.

These amounts do not include the administrative expense of prepaid carriers (primarily Health Maintenance Organizations) which participate in the program. Since our contracts with prepaid carriers are based on community rating practices, they do not track and separately record administrative expenses charged to the program.

In addition, all Federal agencies expend funds in the program's administration (recording enrollments, withholding and disbursing premiums, etc.). These costs are not captured and recorded, but are probably not significant in the context of the overall program.

Question 10. How portable is coverage under the FEHBP presently?

Answer. The coverage under the FEHB Program is not "portable" in the sense that it accompanies a former Federal employee as he or she moves from employer to employer in the private sector. However, for those employees who are leaving Federal employment, there are several options for continuing FEHB coverage for specific periods of time. Employees who separate from Government employment are entitled to a Temporary Extension of Coverage for 31 days at no charge. Under certain circumstances, i.e., during hospitalization, this period may extend up to 91 days. Former employees may convert to an individual policy with their last FEHB carrier during the 31-day extension period that follows notification by the employing agency of the termination of group health benefits coverage. In addition, former employees may elect Temporary Continuation of Coverage (TCC) for up to 18 months after the date of separation and enroll for group coverage under any FEHB plan for which they are otherwise eligible. The former employee generally must pay the full premium and a small administrative charge of 2 percent for this TCC. We believe that this accomplishes the goal of being consistent with what is generally available in the private sector.

Those who retire from the Federal Government can take their FEHB coverage with them into retirement provided they meet minimum enrollment criteria. The Federal Government continues to pay the employer's share of the premiums during retirement. During the recent downsizing and Governmentwide early retirement initiative, OPM relaxed the requirements for continuing FEHB coverage into retirement to make it easier for those who had not planned to retire to do so.

Question 11. Have you considered improving portability or looked into the possibility of offering complete portability through the FEHBP?

Answer. At this time we feel that the Temporary Extension of Coverage with conversion privileges and Temporary Continuation of Coverage are sufficient to meet the needs of our former employees as they move from Government employment to private sector employment. However, we will continually reassess the situation to make sure that it is adequate in the future.

Question 12. If so, please explain what you have done and the rationale for any decisions regarding portability that you may have made.

Answer. Please see above answer.

ADMINISTRATION OF THE FEDERAL RETIREMENT SYSTEMS

Question 1. What are the average processing times for the following categories of retirement benefits:

a. Normal voluntary immediate retirement
b. Retirement by reason of involuntary separation
c. Disability retirement

Answer. The average processing time (in days) for retirement claims is as follows:

	FY 94 Actual	FY 95 YTD
Non-Disability Retirements	89	78
Disability Retirements	258	240

Please note that we do not separately track processing times for voluntary and involuntary retirements because the processing requirements for both are essentially the same.

These processing times represent the amount of time it takes to fully process a retirement application, measured from the date OPM receives an annuity application until all of the paperwork and procedures associated with the application are

completed. They are not a measure of the time it takes for a retiree to begin receiving an annuity. On average, over 90 percent of non-disability retirees are placed in an interim pay status 9–10 days from the date we receive their application. As a result, the vast majority of new retirees receive their first retirement check on the day it is due.

Question 2. What retirement processing functions now performed by OPM staff might be performed more efficiently in the private sector?

Answer. OPM has a history of being alert for efficiencies that can be gained by using private sector firms to perform functions for which it is responsible:

- The retirement program relies extensively on private sector sources for ADP services, the most dramatic being its contract for the design, development and implementation of the FERS Automated Recordkeeping and Processing System (FAPS), a 7-year, $100 million project.
- We also use private sector companies to print virtually all of our mass mailings to annuitants, where it would not make economic sense for OPM to maintain this capability in-house.
- We frequently use the private sector on an ad hoc basis to provide expertise we need and do not possess. For example, private companies developed videos and training programs explaining the operation of FERS after its enactment in 1986, and we periodically use consultants to improve informational and instructional materials pertaining to the retirement programs.
- Finally, we have contracted with local physicians to interpret medical information and render opinions in support of our processing of applications for disability retirement. We now incur costs for these services only when needed, as opposed to employing full-time physicians.

Our large-scale use of private sector resources is one of the most important reasons why we are able to provide retirement services so efficiently. We have benchmarked ourselves against other entities in our line of business, and have determined that we provide overall services at roughly half the cost of the Social Security Administration (measured on a cost per beneficiary basis), and even less compared to the Railroad Retirement Board and the largest State retirement systems. While we don't have as clear a picture of how we compare to the private sector, the data we possess suggest we may be more efficient by a third.

We will continue to find ways to use private sector resources to improve our administration of the retirement programs. For example, we are closely studying the private sector's best teleservice practices as part of the National Performance Review, and we expect to achieve major gains in this area in the near future.

Question 3. You mentioned a survey of retirees to determine their level of satisfaction with OPM's level of service. How frequently are these surveys performed? Would you please provide the committee with the results of the last five surveys.

Answer. Copies of the four customer surveys we have conducted are attached. Please note that the most recent survey summarizes and compares most of the results from all four. With the exception of 1992, we have conducted the survey annually since 1990. [See Tab B.]

We have found these surveys very useful in helping us identify the areas where we are not performing as we should. As a result, we have redirected our efforts, focusing on those areas of most concern to our customers.

FEDERAL PAY ISSUES

Question 1. At the beginning of the Clinton Administration, the new locality pay program was described (by some Administration officials) as "seriously flawed." What changes have been made to the locality pay program? Do you believe the program is flawed?

Answer. See answer to Question 2.

Question 2. Are there any aspects of the locality pay plan, particularly with respect to various differentials, that you think should be changed?

Answer. In the Pay Agent's November 29, 1993, report to the President, two methodological issues or flaws in the Federal Employees Pay Comparability Act (FEPCA) were identified: (1) system rigidity; and (2) inability to match Federal survey jobs.

The system rigidity flaw relates to FEPCA's requirement to adjust the entire General Schedule by a single percentage in each locality. This practice is atypical of non-Federal compensation practices. The use of a single percentage adjustment fails to recognize that labor markets differ in geographic scope for different occupational categories.

In addition, limiting the pay adjustment process to a single adjustment formula prevents the Government from considering other labor market indicators, such as

application ratios, quit rates, unemployment rates, career progression patterns, and indicators of change in the quality of the workforce. Outside the Federal Government, pay administrators commonly use a variety of data to set pay.

The system rigidity flaw can be resolved only through legislation. The Government needs the flexibility to select an appropriate pay policy—i.e., one that does not overpay and underpay workers by design, resulting in a system that lacks credibility.

The second flaw—inability to publish sufficient salary information in some localities—was apparent in the first locality surveys used for the January 1994 adjustment. The Pay Agent addressed this problem in its recommendations for the 1995 and 1996 adjustments by adopting a special multiple regression model to estimate the pay of unpublished jobs based on published information for other jobs by geographic area, occupation, and grade level. The econometrics model is described in the Pay Agent's November 29, 1994, report to the President; it was approved by statisticians at the Bureau of Labor Statistics and recommended by the Federal Salary Council.

LABOR-MANAGEMENT RELATIONS

Question 1. What is your view concerning the advisability of mandatory dues—sometimes known as agency shop—within the federal government?

Answer. The National Partnership Council reviewed this issue thoroughly in preparing its January 1994 Report to the President on Implementing Recommendations of the National Performance Review. The Council was unable to reach consensus. It offered four options ranging from mandatory dues payment for all members of a bargaining unit to no change in the current law. The Administration is now developing a legislative proposal for human resources management reform.

Question 2. In your view, is Congressional action required to permit mandatory dues checkoff or could the President prescribe this by Executive Order?

Answer. The Administration believes that legislation is required to permit mandatory dues checkoff. That is why the issue of mandatory dues was considered by the National Partnership Council as a possible legislative proposal. The conference report on the Civil Service Reform Act confirms this view in stating, among other things, that "[T]he conferees wish to emphasize . . . that nothing in the conference report authorizes, or is intended to authorize, the negotiation of an agency shop or union shop provision."

Question 3. Many have voiced concerns that the labor-management councils established by this administration may undermine merit principles and cede to unions authority that really needs to be exercised by management in the interests of the taxpayers. What, if anything, has OPM done to oversee the operation of these councils to ensure the observance of merit principles and the retention of management's right to administer the agency in the taxpayers' best interests?

Answer. OPM and the National Partnership Council provide guidance and assistance to agencies and unions who are establishing labor management partnership councils. While it is not OPM's role to oversee the day-to-day operation of such councils, as Executive Secretariat to the National Partnership Council, we are gathering information on activities of councils throughout the country.

With respect to adherence to the merit principles, it is important to note that labor-management partnership does not in any way relieve agency management of its responsibility and accountability for upholding laws, regulations, and merit principles. Further, the National Partnership Council was mindful of the interests of taxpayers when it recommended to the President the establishment of a "Good Government Standard" calling for labor-management cooperation in seeking increased "quality and productivity, customer service, mission accomplishment, efficiency, [and] quality of work life. . . ." Partnership engages unions, employees, and management together in creating a more efficient Government, while complying with laws, regulations, and merit principles.

Finally, OPM plans to strengthen oversight generally, and in that context it would address any activities that might undermine merit principles.

Question 4. The labor-management councils provide a forum for input by unions, but has OPM or the administration established any similar mechanism for soliciting the views of rank-and-file non-union employees?

Answer. There is currently no established mechanism comparable to Executive Order 12871 that requires agencies to consult with nonrepresented employees. However, nothing precludes agencies from including nonrepresented employees on their partnership councils or otherwise obtaining their input, as we have done here in OPM. In advising agencies and unions forming partnerships: we encourage them to provide opportunities for all employees to participate. The National Partnership

Council, which I chair, is currently collecting information about partnership activities, including information about the participation of nonrepresented employees.

OPM ORGANIZATION

Question 1a. In your testimony, you indicated that OPM has already reduced the number of people on the payroll by about 23.1 percent, including a 40.4 percent reduction in GS–13 to 15 supervisors and middle mangers. What was the absolute number and percentage reduction in FTE's achieved by this reduction?

Answer. Since March the reductions have continued. The number of employees at OPM has now been reduced from 6,944 on April 1, 1993, to 5,146 on April 1, 1995, a reduction of 25.9 percent. The number of GM 13–15 supervisors has been reduced from 497 to 279, a reduction of 43.9 percent. (See attached chart, OPM On-Board Strength. Also, please note that Full-Time Equivalent (FTE) is a measure of work years and does not directly translate to employees on-board.)

Question 1b (1). Please break down these reductions by the following categories: Full-time permanent employees.

Answer. We have reduced the number of all full-time permanent employees by 1,611 and the number of full-time permanent GS 13–15 supervisors by 218.

Question 1b (2). Temporary employees?

Answer. We have reduced the number of temporary employees by 196. We have no temporary supervisors GM 13–15.

Question 1b (3). Intermittent employees?

Answer. The number of intermittent employees on-board has increased by 85. We have no intermittent supervisors GM 13–15.

Note: The populations in numbers (1) to (3) are in no way exclusive of one another. For example, an intermittent employee may also be a temporary employee. Also, they do not include all of OPM's employees, as there are populations which are not covered (e.g. part-time permanent employees).

Question 1b.(4). By OPM program or division?

Answer. Due to reorganizations and restructuring between September 1994 and March 1995, the number of employees by organization is difficult to track. Many organizations have been combined, realigned, or abolished. Here is a chart comparing April 1, 1993, employees onboard with April 1, 1995, employees onboard.

Organization	April 1, 1993 On-Board	April 1, 1995 On-Board	Reorganization Notes
ALL EMPLOYEES			
Employment Service	295	311	Some employees reassigned from Washington Area Service Center
Workforce Training Service/Office of Executive Resources.	260	199	
Investigations Service	465	779	Field investigators reassigned from Field Services
Retirement and Insurance Service	1,346	1,338	Some employees reassigned from Administrative Offices
Human Resources Systems Service/Office of Merit Systems Oversight and Effectiveness.	263	211	
Atlanta Field Service	611	306	Field Service Investigators reassigned to Investigations Service
Chicago Field Service	655	471	
Dallas Field Service	651	336	Do.
Philadelphia Field Service	558	320	Do.
San Francisco Field Service	542	269	Do.
Washington Area Service Center	404	0	Organization Abolished
Administrative Offices (Personnel, Information Technology, Contracting, Administrative Services).	608	305	Some employees reassigned to Retirement and Insurance, Chief Financial Office
Staff Offices	120	126	Some employees reassigned from Human Resources Systems Service
Chief Financial Office	46	79	Some employees reassigned from Administrative Offices
Office of Inspector General	120	96	
Total	6,944	5,146	

Organization	April 1, 1993 On-Board	April 1, 1995 On-Board	Reorganization Notes
GM 13–15 SUPERVISORS			
Employment Service	24	29	Some employees reassigned from Washington Area Service Center
Workforce Training Service/Office of Executive Resources.	36	20	
Investigations Service	21	35	Field investigators reassigned from Field Services
Retirement and Insurance Service	77	62	Some employees reassigned from Administrative Offices
Human Resources Systems Service/Office of Merit Systems Oversight and Effectiveness.	39	16	
Atlanta Field Service	30	14	Field Service Investigators reassigned to Investigations Service
Chicago Field Service	35	14	Do.
Dallas Field Service	38	9	Do.
Philadelphia Field Service	30	9	Do.
San Francisco Field Service	35	14	
Washington Area Service Center	30	0	Organization Abolished
Administrative Offices (Personnel, Information Technology, Contracting, Administrative Services).	61	19	Some employees reassigned to Retirement and Insurance, Chief Financial Office
Staff Offices	10	6	Some employees reassigned from Human Resources Systems Service
Chief Financial Office	10	7	Some employees reassigned from Administrative Offices
Office of Inspector General	21	25	
Total	497	279	

OPM ON-BOARD STRENGTH

Population	April 1, 1993 On-Board	April 1, 1995 On-Board	Percent Change
All Employees	6,944	5,146	−25.9
(Average Grade)	(8.16)	(8.28).	
All Supervisors	787	452	−42.6
(Supv. Ratio)	(1 to 7.82)	(1 to 10.39).	
GS/GM 13–15 Supervisors	497	279	−43.9
GS/GM 13–15 Non-Supervisors	655	634	−03.2
SES Employees	57	43	−24.6

On-Board Strength Includes All Types And All Work Schedules.
On-Board Strength For April 1, 1995 Does Not Include Voter Rights Personnel Or White House Fellows
Employees Defined As Supervisors Are Based On the National Performance Review Definition Of Supervisory Codes 1–3
Average Grade Is Based On OS/GM And Equivalent Employees Only
Of The 5146 Employees On Board April 1, 617 Worked Intermittent Work Schedules

INVESTIGATIONS

Question 1. The investigative function now performed by OPM is critical not only to government efficiency, but also to national security since the granting or denial of security clearances is often based upon the results of these investigations. Please describe how OPM will oversee privatized investigations in order to ensure that they are timely and accurate.

Answer. Under a strict privatization model, the responsibility for quality and integrity assurance gravitates to the agencies for which the investigations are done. However, one variation under consideration and supported by our customers would allow OPM to operate as a contract manager with Federal employees responsible for policy, oversight, coordination, and guidance. This oversight role would include quality and integrity assurance, ensuring timeliness and accuracy for those agencies choosing to receive investigative services from or through OPM.

Whatever form of privatization occurs, I have proposed that the Office of Personnel Management maintain a staff to carry out policy and oversight responsibilities, to include ownership and protection of our data base and investigative records and adherence to all Privacy Act requirements.

Question 2. In your testimony, you emphasized that in addition to obtaining high quality investigations, proper analysis of the data is also required to ensure that suitability and security adjudications are correctly made. How does OPM oversee this critical part of the process?

Answer. Currently, OPM routinely assesses how agencies adjudicate investigations they request, whether from OPM, their own staff, or another provider. This examination looks at the type and amount of information contained in reports of investigation, whether the scope of the investigation is sufficient for its use, and the determination made based on information contained in the investigation.

As a service to our customers, we characterize the information in reports we produce, to give security officers a quick reading as to whether issues are present in the investigation and, if so, of what seriousness. In instances where we consider the issue(s) to be potentially actionable (up to and including removal), we require that the agency notify us of the action taken. If we do not receive a timely notification, we follow up to ensure quick adjudication.

PERSONNEL MANAGEMENT

Question 1. Does OPM periodically survey other agencies, job applicants, or members of the civil service to determine whether they are satisfied with the level of OPM services? If so, how frequently are these surveys performed? Would you please provide the Committee with the results of the last five surveys?

Answer.

Agency Customers—Satisfaction with Staffing Services

OPM began surveying its agency customers on a nationwide basis in 1991. We asked for their opinion on the recruiting and staffing services provided by the OPM field offices. Our survey questionnaires have changed over the years as our services have changed; however, a survey question to gauge satisfaction with our overall functions has remained. We have attached a chart showing the results for this overall question over the past four years. We have also included copies of the complete annual survey reports. [See Tab C.]

Job Applicants—Satisfaction with Employment Information

Since 1991, OPM has been surveying job seekers to determine their level of satisfaction with our employment information service. Our methods of delivering information have changed over the years (we now rely heavily on automated telephone and touch screen systems to provide 24-hour service), and our survey process has thus varied from year to year. We have included copies of five different customer surveys we conducted between 1990 and 1993. [See Tab D.]

In 1994, we focused on developing customer service standards for delivering employment information, and creating a continuous survey process to measure our service against these standards. The surveys are being given to customers who use our automated systems and who visit, call, or write our employment information centers. Our first customer service report against these standards will be prepared this summer. Copies of the standards and the surveys are attached. [See Tab E.]

Question 2. What is your assessment of the current performance management system for Federal workers, its strengths and its weaknesses? What changes would you make to strengthen it?

Answer. The Federal statutory and regulatory scheme for performance management does not sufficiently support agency efforts to redesign and reinvent their organizations and work processes, because it is too inflexible and does not promote employee involvement in the development of agency systems. Consequently, agency performance management systems are typically rigid, more focused on process than on performance improvement, and lacking in credibility. Moreover, some of the system's required linkages between performance ratings and other personnel actions, while offering some efficiency and consistency, have contributed to severe ratings inflation.

This assessment is based on various studies the Office of Personnel Management commissioned or coordinated under Congressional direction. The National Research Council of the National Academy of Sciences synthesized contemporary research and private-sector practice in the areas of pay for performance and performance appraisal. Two Congressionally mandated committees, the Pay-for-Performance Labor Management Committee and the Performance Management and Recognition System Review Committee also studied the Government's systems, explored options for change, and made recommendations regarding performance management in the Federal Government. The two themes that run through all these studies are the need to provide flexibility for the agencies to design systems that can meet their

individual cultures and needs, and the need for employee involvement in order to establish credibility in, and acceptance of, the systems designed.

OPM is proposing both regulatory and statutory remedies for these two fundamental problems with the Governmentwide performance management system.

Regulatory remedy:

On January 27, 1995, OPM published in the Federal Register for public comment a major deregulation of the Federal Government's appraisal and awards systems for non-Senior Executive Service employees. The proposed regulations focus on three areas. First, they provide agencies more flexibility, within the requirements of statute, and permit the use of more appropriate results-oriented performance measures, including team performance and customer service. Second, decentralizing specific approaches and procedures will allow agencies to tailor appraisal and awards to particular missions, work settings, and technology. Finally, the proposed regulations encourage, within statutory limits, involving employees and their representatives in the design and implementation of appraisal and awards programs. This would enable agencies to make their performance management systems more meaningful, leading to employee acceptance of the appraisal and award systems and their results.

Statutory remedy:

OPM and the National Performance Review have been developing proposals for changes to the Governmentwide performance management system that would:

- require each agency to establish performance management and incentive award programs that improve individual and organizational performance;
- establish a Governmentwide framework of basic requirements such as periodic performance assessments of each employee to assess individual accountability (this framework would include a requirement to involve employees in the design and implementation of performance expectations);
- provide agencies and managers with additional tools to deal with poor performance, such as—

  shortening the period for which an employee performing unacceptably would be on notice of a proposed removal or demotion;

  eliminating the entitlement for appeal to MSPB on denial of a within grade increase;

  authorizing additional base pay sanctions for poor performance.

Question 3. In a decentralized world, what mechanisms will OPM use to ensure that agencies are conforming to merit principles and observing the laws with respect to veterans preference? Will you need additional tools that are not currently available to do this job?

Answer. In a reinvented and decentralized Federal Government, agencies have the primary responsibility to assure internal accountability with civil service laws and regulations. A reinvented and downsized OPM has shifted its emphasis to working with agencies to improve their internal systems for assuring accountability with Federal personnel laws, rules, and regulations.

Current and continuing efforts to achieve agency accountability with Federal personnel laws, rules, and regulations, as well as internal agency requirements, are part of OPM's "Good Government Framework," which includes:

- Providing training to agencies to make them aware of their obligations under the merit systems principles and the prohibited personnel practices set forth in title 5 of the United States Code.

This training is provided, without charge, to agency human resources management personnel, managers, and supervisors. It also is available to agencies in a "train the trainers" format that is designed to train agency human resources management personnel in the techniques needed to train agency mangers and supervisors.

This training emphasizes the development of human resource management systems that meet agency needs (i.e, that match the "culture" of each agency) while being consistent with Federal personnel laws, rules, and regulations. The training emphasizes that agency managers and supervisors are accountable for assuring compliance with these laws, rules, and regulations.

- Working directly with agencies to develop an inventory of automated indicators that can be used to assess agency adherence with Federal personnel laws, rules, regulations, and merit system principles.

OPM will monitor a specific collection of these indicators that covers a wide range of human resources management areas in Federal agencies. Agencies are being asked to establish their own sets of indicators that they can use to monitor internal

accountability with Federal personnel law, rules, regulations, and merit system principles.

• Providing technical assistance directly to agencies to assist and advise them in the development of human resources management accountability programs.

OPM, of course, will maintain its authority and ability to directly investigate allegations of abuse of Federal personnel laws, rules, and regulations (including the merit system principles and veterans preference) when it becomes aware of such abuses or when such abuses are brought to OPM's attention, and to take appropriate action.

Question 4. Witnesses at the hearing remarked on the need for OPM to serve as a source of authoritative guidance on personnel matters for agencies, especially smaller agencies. With the substantial reduction of the FPM, how will OPM now provide that sort of guidance?

Answer. The Office of Personnel Management has become much more accessible to all agencies as a result of the abolishment of the FPM. In the past, the FPM was virtually the only formal communication vehicle between OPM and agencies. That is no longer the case. The FPM Sunset Document, which showed the disposition of all material in the former FPM, listed an office and phone number for each FPM chapter. This has provided agencies and others with a direct link to the office within OPM that can provide expert advice on the topic of particular interest.

OPM's electronic bulletin board, "Mainstreet," provides another way to access OPM experts. Anyone with a modem and a telephone can use "Mainstreet," including its numerous forums that provide information on a wide variety of topics. Queries can be posed and answered quickly. An example of this is the forum on reduction in force (RIF). A multitude of information on RIF is provided, and the information is updated daily. "Mainstreet" has been very heavily used. A formal notice and posting system is also in operation, to ensure that all personnel offices receive important information on Governmentwide policies and issues. Continued expansion of electronic means of communication will ensure that agencies have access to as much guidance as they feel a need for.

Question 5. It is imperative that the President, as the nation's chief executive officer, have the tools to control the executive branch and ensure that it is responsive to his political program and his political appointees. He, after all, is politically accountable to the Congress and the American people for the actions (or inaction) of the executive branch. How, in your view, will OPM's proposed decentralization affect the President's ability to exercise political control of the civil service?

Answer. A principal duty of the OPM Director is to be the President's primary advisor on Federal human resources management and, as such, the Director has a pivotal role in helping the President implement his program and policies throughout the Government. At the same time, the National Performance Review recognized that, in certain areas, decentralization will allow agencies to do better personnel work, and this will require greater flexibility than in the past. OPM tries to distinguish between those areas where central control is required and those where it is not. Among the former are our core mission of protecting the merit system and such areas as pay, benefits, leave, and retirement that require uniformity throughout Government. We recognize, however, that there are other areas where the agencies may be given more flexibility without any loss of the President's central leadership role.

OPM also has an educational role in providing central leadership through its Office of Executive Resources. For example, the Federal Executive Institute provides residential, month-long training programs for hundreds of senior career executives. These programs reflect Administration policies and priorities. We believe that, as a result of these courses, the ideas taught will cascade down through the chain of command within their various agencies. In short, we believe that such decentralization as has taken place, or will take place, will not inhibit Presidential leadership but will enhance it.

[NOTE.—Tabs A–E can be found in the subcommittee files.]

Mr. MICA. And I also want the record to note that we've been joined by our distinguished member of the panel, Mr. Gilman, from New York. Welcome, Mr. Gilman.

Did you have any comments you wanted to make?

Mr. GILMAN. Just that I am pleased, Mr. Chairman, that you are conducting this hearing early in the stages of this 104th Congress, and I am pleased that we have such a distinguished panel before us.

Thank you, Mr. Chairman.

Mr. MICA. And thank you.

I don't know of anyone whom I respect more than Mr. Gilman with his leadership in so many areas in the Congress, and we're pleased that you've joined us and part of this panel.

I'm going to try to work sort of under a 5-minute rule. We don't have a timer, but we'll try to limit it so everyone on the panel gets equal time and we'll go around as many times as folks would like.

I think it's very important that you're here today, the day after the budget has been presented to the Congress. Quite frankly, I've not had a chance to even review the contents of the budget. I was going to stay up all night and read the multi-volume report.

Mr. KING. You would be a bolder man than you even appear, Mr. Chairman, if you took that on.

Mr. MICA. But I have a few questions, and we could zero in on your particular area. Maybe you can enlighten us as to how it would affect your agency and its operation.

First of all, I keep hearing about this one-third cut. I see some figures here, and you testified, I guess in April 1993 from 6,944 to 5,341. Is that correct?

Mr. KING. Yes, Mr. Chairman.

Mr. MICA [continuing]. In February, this year. Is that the one-third cut that we're talking about, or are we talking about another one-third below the 5,000?

Mr. KING. If, Mr. Chairman, you would think of the Agency in terms of a simple pie, the pie plate, and divide it into four pieces, one-fourth, roughly—and this is rough, but I think it's the easiest way to visualize it—one-fourth is the core that I addressed. One-fourth is the retirement and insurance. The other two quarters would be the investigations and training. Those would make——

Mr. MICA. We have career entry, I have a list that you provided us.

Mr. KING. Career entry would fit up into the core. So training would be a quarter, and roughly less than a quarter would investigations, substantially less than a quarter. Those two, training and investigations, are the areas from in which additional cuts would come.

Mr. MICA. So we will go from a figure today of 5,341, to what figure?

Mr. KING. I would think within a year, we'd be down by fully 1,000, and then from there we would have to work on our administrative services and of course, we would continue to reduce.

Mr. MICA. And most of those cuts would come out of investigations and training?

Mr. KING. That's correct, Mr. Chairman.

Mr. MICA. OK. I see investigations is about the third largest area, and training might be in human resources development; is that the category?

Mr. KING. Yes. We would move two activities out of the training.

Mr. MICA. Now, my next question would be, again, we had 6,944, we have 5,341. What had been the actual reduction in budgets for personnel? Are those also reflective? What kinds of money are we spending to finance these positions?

Mr. KING. We didn't have a date certain, Mr. Chairman, as to when the separation would occur. We believe it can be done within the next 12 months.

Mr. MICA. But my question is, has there been an actual reduction and how significant in the dollar figures we are expending?

And then the next part of that question would be: have any of these functions been contracted out or are they reflected in some other agency's budget who's had to assume that responsibility, or are these part-time positions? Are we spending less money and what dollar figures, do we know that?

Mr. KING. OK. The two areas that we're talking reductions in are revolving fund. And that is where we do fee-for-service work ourselves, as you know, Mr. Chairman.

Mr. MICA. Right. Some money is coming in for investigations and some for training from the other agencies.

Mr. KING. We charge them, and we get fully reimbursed. We operate them at this stage at a break even basis or slightly above.

Ms. Lattimore, the way your figures are going now, you're at what level?

Ms. LATTIMORE. Just about $1 million a month.

Mr. KING. Just about $1 million a month above costs. So what we're doing is looking at that. Let's take a look at that unit, it's a good unit to discuss because it's somewhat of a single piece.

What would remain, Mr. Chairman, I'd like to give you a heads up on this, is that you wouldn't have it leave the government entirely. You would want to keep a security policy group, you know, available at a central location. We have over 12 million records that would be confidential, and the management of those files would be also important. And those should be looked at for a central repository within government.

Mr. MICA. I think it would be helpful, Mr. King, if we could get the figures so we could see the body count. I'm interested in the dollar count, too, that corresponds. And then we also need to look and see, are we just deferring this to some other agency? Are there any real savings in what we're doing, or is the service being contracted out?

Mr. KING. What we are looking at, Mr. Chairman, is, can we move things out of our agency that aren't part of the core that could be "privatized".

We believe that, with investigations and a number of the training responsibilities we presently have, that could be done. As far as the economic implications, we have been told by the Office of Management and Budget that there are savings in there, and we are operating on the basis of their recommendations as far as the economic implications that you're raising.

I have no problem forwarding that request from you, Mr. Chairman, to the Office of Management and Budget.

Mr. MICA. Just briefly. Like what did you spend overall for the Agency, say in fiscal year 1994, 1995? What was your budget?

Mr. KING. Oh, our total? Mr. Gilbert Seaux who, is our Chief Financial Officer.

Gil, where are you?

Mr. MICA. Then what are we working under now, what's proposed under what we saw yesterday?

Mr. SEAUX. Sir, under the discretionary, we're looking at $221 million in fiscal year 1996 as the budget. That's made up of pieces of both the transfer of limitations in the trust fund as well as the salaries and expenses annual appropriation, sir.

Mr. MICA. And how does that compare to 1994?

Mr. SEAUX. We're looking at a net change, if you look at the salaries and expenses, it's a net change of about $6.1 million from fiscal year 1995, and an increase of about $7.7 million to the limitation transfer of trust fund money. So it's almost a wash there in terms of the overall, but it's in fact a 5.3-percent reduction in the salaries and expenses appropriation that we have in our agency.

Mr. KING. The transfer is back over to this insurance and retirement group that I addressed a minute ago.

Mr. MICA. This is where I'm confused, because I don't see the dollar savings, any real dollar savings here. Maybe I'm missing something.

Mr. KING. There's a number of things because of the Federal accounting systems that don't appear, and that includes our retirement, et cetera. But I would leave this to OMB to respond to, because they looked at the economics of it.

What we looked at were the FTE's, how do we get the agency smaller, and can this work be done outside, and is it a critical part of OPM.

Mr. MICA. In addition to the personnel changes that you've described within the Agency, how much work has been contracted out and assumed some of these lost FTE positions?

Mr. KING. A substantial part would be contracted out. In fact, what we would like to see is an employee-owned corporation.

Mr. MICA. Is that counted in these budget figures or on top? So that's added on top of this?

Mr. KING. No, we haven't contracted it out. Right now we're doing it with our own operation. The idea here is that we would move it into a privatized unit to give that service to the government.

Mr. MICA. But my question is of what we've taken out, you've got about 1,600 positions. I'm just wondering if we are involved in a sort of a shell game where the positions—have some of these responsibilities been given out on a contracting basis?

Mr. KING. No, not right now. Within government——

Mr. MICA. Of the 1,600 positions?

Mr. KING. Oh, the 1,600, no, they all work for us.

Mr. MICA. They aren't. But as far as the dollar amounts, we're still at about the same balance, when you balance these accounts?

Mr. KING. Right, because this is a revolving fund and it doesn't affect our S&E account or the trust funds which are the two top quadrants I talked about. The S&E affects our core function and, in the retirement areas, trust fund moneys. So those are the top, that top part of the quadrant I mentioned.

The other two at the base that we're talking about are revolving fund moneys, and therefore are done on a basis that is essentially contracted. It's a privatized operation that's federally managed.

Mr. MICA. A couple of quick questions in conclusion: Approximately how many personnel offices are there across all of the Federal agencies?

Mr. KING. Good question. About, again, about 1,600, and we will try and get to the committee more accurately——

Mr. MICA. And how many individuals are involved in human resources or personnel?

Mr. KING. About 35,000 at last count.

Mr. MICA. 35,000. And what was the other figure?

Mr. KING. 1,600, Mr. Chairman.

Mr. MICA. OK. My time is expired and I'll yield now to the ranking member.

Mr. MORAN. Thank you, Mr. Chairman.

So up to now, you have cut the number of people directly employed by OPM from approximately 7,000 down to about 5,000.

Mr. KING. 400.

Mr. MORAN. 5,400. So you've—1,500 people have left over what period of time?

Mr. KING. About a year, just about a year, Mr. Moran.

Mr. MORAN. And as a percentage of the number of people employed by OPM, that comes to——

Mr. KING. A little over 20, it's over 20 percent. And by the way, I should say I would be disingenuous not to say it, that the numbers I'm using are warm bodies at the agency. So that when you get into FTE's, you get a lower percentage. But that was the number of people drawing Federal paychecks who were on our payroll.

Mr. MORAN. Right. So actual warm bodies that were terminated, you achieved a decline of about 20 percent.

Mr. KING. Yes.

Mr. MORAN. Is there any other agency in the Federal Government that has a reduction of 20 percent?

Mr. KING. Mr. Klein, I would look to you. I think the Department of Defense probably with base closures would have the impact, Mr. Moran, but I don't think there are other agencies that have anything approaching that.

Mr. KLEIN. That's correct.

Mr. MORAN. So DOD has achieved just about that, actually, if you look at the budget, I think it was about 20 percent. I think that's important, because OPM strives to be a model for the other agencies in terms of personnel management and actions.

With regard to health benefits, I know the health insurance companies generally take about 25 percent of the health dollar that we pay in in terms of premium for their own management. That's one of the problems, one of the things driving the need for health care reform, that about 25 percent of every health dollar is not going to health care, but into insurance management.

What percentage of the Federal employees' insurance premium goes into management?

Mr. KING. Mr. Flynn, would you like to respond?

Mr. FLYNN. I don't—I don't have that information precisely. I'd be happy to try and pull together something that the committee could take a look at and bring it back.

Mr. MORAN. I am disappointed you don't have it, because I used a figure that had been given to me last year, but I want an updated figure, but it was in the single digits. It was like 5 or 6 percent.

Mr. KING. It's—we have—there's a number, and I believe——

Mr. MORAN. Yes, these are good numbers, I would suggest, and they're helpful to have ready because I think they make a point. So I would hope we would supply that for the record. Unfortunately, supplying it for the record, nobody ever sees it.

Mr. KING. We'll supply it for the record, Mr. Moran——

[The information referred to follows:]

ADMINISTRATIVE COSTS OF THE FEDERAL EMPLOYEES HEALTH BENEFITS PROGRAM

In FY 1993 (the most recent year for which we have complete financial data), the proportion of program costs devoted to administering the program was 5.7 percent.

This percentage recognizes that two components comprise the administrative cost structure of the program:

1) Expenses which the Office of Personnel Management incurs in administering the program:

$22 million or 0.2 percent of the total

2) Expenses for administration classified and reported by carriers participating in the program on a fee-for-service basis:

$803 million or 5.5 percent of the total.

The amounts do not include the administrative expense of prepaid carriers (primarily Health Maintenance Organizations) which participate in the program. Since our contracts with prepaid carriers are based on community rating practices, they do not track and separately record administrative expenses charged to the program.

In addition, all Federal agencies expend funds in the program's administration (recording enrollments, withholding and disbursing premiums, etc.). These costs are not captured and recorded, and are probably not significant in the context of the overall program.

We are not certain what costs may have been included in the 25 percent figure used by Mr. Moran as representative of administrative costs for health care in the private sector. For that reason, a straight comparison with the Federal Employees Health Benefits (FEHB) program should be approached with some caution. Nevertheless, the evidence does support the thesis that administrative costs in the FEHB Program compare very favorably to the private sector.

We have sought and will continue to seek ways to minimize administrative expenses in the program, both to ensure that it is being managed properly, and, more importantly, to ensure that costs remain competitive and that as much as possible of every health care dollar goes to the provision of quality medical care for enrollees.

Mr. MORAN. Is it fair to say it's about 5 to 6 percent?

Mr. KING. I don't think it exceeds that, but I'm hesitant to say that because I'm under oath, Mr. Moran.

Mr. MORAN. All right. I think there's a point that could be made in your next presentation that it's saving an enormous amount of money in terms of management, given the number of people who are actually running the Federal Employees Health Benefits Plan.

Mr. KING. Yes, sir.

Mr. MORAN. And of course one might ask, well, then there must be a problem with the efficiency or the satisfaction level. I know that private insurance plans have about an 80 to 85 percent level of satisfaction.

Do you know what the FEHBP level of satisfaction is? I know you sent out surveys.

Mr. KING. We have just completed a survey.

Ed?

Mr. FLYNN. We are very comparable across the board, in the high 80's and 90's for some carriers.

Mr. MORAN. Oh, well, I was told last year, when I presented testimony to Mr. Ford's committee, it was actually 96 percent satisfaction level.

Mr. FLYNN. I believe that's a survey done by perhaps one plan in asking some different questions.

Mr. MORAN. All right. I appreciate your modesty. I'm not all that impressed by your salesmanship here. OK.

Mr. KING. It's the first time I've ever been accused of not dealing in hyperbole, Mr. Moran, thank you.

Mr. MORAN. I don't find you dealing in hyberbole at all. I am trying to make a case that OPM is actually carrying out a fairly important function in a very efficient manner.

Let me ask you—we'll try a different tack and next time when you have these numbers, we'll give you an opportunity to underscore them. The administration's budget, as the chairman was suggesting, includes about an one-third reduction in OPM.

Was that your recommendation?

Mr. KING. The recommendation was that we could reduce the agency, and as you probably noted, what we're not doing is reducing our core function. We're not reducing our retirement area; we're actually enhancing it. We are reducing our administrative overhead, and by the privatization in both training and in investigations, we can reduce the number of Federal employees who are doing that work, and we feel it can be done in the private sector.

What I would like to do, Mr. Moran, is to do an employee-owned business and launch that so they can go into the private sector, provide those services. And because we know in both areas there have been these ups and downs, it's a cyclical business, private sector is much more responsive to cyclical business than government. Government does not have quick turnaround time. And that's one of the real difficulties if you're managing, trying to manage a business that's got to be very market sensitive in response.

Mr. MORAN. I don't argue with that, Mr. King, but the actual question was, was that your recommendation?

Mr. KING. I had looked at it. We had serious problems when I came into the agency.

Mr. MORAN. You had serious problems?

Mr. KING. When I first came into the agency, this was an area of serious problems because we were headed toward bankruptcy, if you will. I think "anti-deficiency" is the term of art in government.

Mr. MORAN. OK. We were told, when the NPR effort was announced, that one of the core proposals on which this whole thing hinged was Civil Service reform. I waited anxiously all last year for the Civil Service referral legislation, and somehow it either slipped by me or never got to the committee.

Is there a plan for submitting Civil Service reform?

Mr. KING. Yes, sir. There is the Civil Service reform legislation. We're staffing large parts of it, but it is being worked directly because of its implications, directly with the Vice President in the reinvention effort. And you should be hearing, within a few months of that——

Mr. MORAN. Few months?

Mr. KING. Well, I'm taking the extreme because I don't control it, so I am buying as much time as I can for someone else.

Mr. MORAN. I understand. We ought to mention, is it Elaine Kamarck who is running it?

Mr. KING. As we used to say in the Soviet Union, you said that, Mr. Moran.

Mr. MORAN. I am curious how we can achieve all the personnel reductions and the dollar savings without even proposing the guts of the Reinventing Government initiative, which is Civil Service reform.

As I mentioned in my opening remarks, I would have hoped that that would be one of the first steps before we decided how many people we could cut and how many dollars we can save, we would see how much we can reform in a cooperative effort with the legislative branch.

Actually, it would have been a lot better, and of course this is hindsight, but it sure would have been a heck of a lot better to have submitted that in a Democratic Congress. I would suggest that now. But now you're going to have to submit it to a new Congress with a new attitude, and I was disappointed that while the administration attempted to take credit for all these I think exaggerated numbers, it didn't even come forward with Civil Service reform legislation.

Is—I don't want to over—take too much of—go too far over my 5 minutes, and I suspect we're pretty close to the time limit.

Mr. MICA. We'll be glad to get back to you.

Thank you.

Mr. MORAN. Thank you, Mr. Chairman.

Mr. MICA. I'd like to recognize now the Congresswoman from Maryland, Mrs. Morella.

Mrs. MORELLA. Thank you very much. Thanks, Mr. Chairman.

Thank you, Mr. King, for your very succinct explanation and testimony. It's kind of like what is happening to your department, isn't it, getting succinct and skeletal?

And I guess that's sort of a concern I wanted to pose for whatever reaction you may have. It's like when we take out everything from OPM, do we need you? I mean I know we need the FEHBP program and others, so I am being kind of facetious, but underneath that is the question about are we taking the guts out of the program when we start privatizing training and investigations?

Would you like to comment on that?

Mr. KING. Yes, I would like to submit that I think the investigations work is a valuable resource, we all know that, there's no question in my mind that it's valuable. I think the issue is, is it a core responsibility of the civil service and the merit protection system. And that's the test we had as we moved through.

How does it affect employees? Can it be done in another location off the Federal payroll? Are there successful contractors out there, models who do investigatory work for the Federal Government? The answer to that is yes.

That means that this unit, the investigative side, could be moved into the private sector. Is it an essential part of our agency? It is not a critical part of the agency. Is it useful? Everything we have is useful.

There is a fee that these folks pay through the revolving fund to our central administration. That means when this goes away, that will affect us back to our administrative overhead. But that again reduces the government and the budget.

Does it affect our core responsibilities? I would submit, if you look at the numbers and even the budget, it does not negatively af-

fect that mission. It carries it out. And you are correct, we have to be very scrupulous during this whole period of downsizing, that there is that temptation to reach in there and weaken it.

And your point is so well made, I would like to thank you and I would hope you would continue to hold us to that standard and that performance level.

Mrs. MORELLA. Thank you. When you talk about the revolving fund, too—we are not going to see a budgetary drop because it's coming from agencies, isn't it? So I mean it is swept up within it.

Mr. KING. That's correct, what they're purchasing and where and how it is being done. So that it is being looked at across the board, and that's why I wasn't being in any way evasive, but it's the Office of Management and Budget that's really taken that governmentwide look from a fiscal point of view, and we're responsible merely for holding the FTE's and the management side of a particular unit.

By the way, I have enormous pride in the people who are in there and their standard of excellence. There is no reflection, nor should there be, on the character of the people and the work that is being done. It's been absolutely outstanding.

It's an area of enormous personal pride from my perspective and the perspective of the people who are in the organization. The question is does it need to be done by the government and by our agency? And the answer to that is no.

Mrs. MORELLA. And you will be sure that the investigations that need to be private will be private—as they are privatized, will be private?

Mr. KING. Well, they would be contracted—we would like to think that this would be an employee-owned corporation that's spun out of our agency, and that we would be coming back to this committee and to other committees in Congress and would ask for your help in creating a climate in which a corporate entity that comes from former Federal employees can in fact be successful. It will need some help.

Mrs. MORELLA. You'll need some legislation, too, won't you?

Mr. KING. Absolutely. That's why I raise it. The analogy I use, it's like an aircraft taking off of the flight deck of an aircraft carrier. It's not going to generate enough power to take off, it's going to need a catapult right up front, so that 80 percent of the energy is going to have to come from that catapult to make it airworthy. Once it's airworthy, it will fly. We're going to have to help it at that point. It's going to be a critical point.

Mrs. MORELLA. Are you going to be presenting legislation to this?

Mr. KING. Yes, the legislation is being developed from the bottom up. Rather than Jim King sitting with Jim King deciding what should be done, we're asking our employees, and Ms. Lattimore just made a presentation to employees looking at a number of different options, just last week. That was last Friday, if I'm not mistaken.

And they're going to come back and we'll continue to work with them. I would like this to be as a program shaped by the people that are involved. And that's the real partnership side of what we do in the work.

Mrs. MORELLA. We look forward to seeing it. You know, you can hire somebody quickly now because of the new procedures. But there's nobody to hire.

Mr. KING. Right. We're also going to need consultant help because, to be very candid, there isn't that much real business talent, when we're talking about business talent within the government itself because it doesn't have that ethos, nor that training in a number of different areas.

We have an entrepreneurial ethos. We have hard-working people, as I've suggested, and we've been working in a competitive environment for many years. But they are going to need help and assistance from our government if they can be permitted to be successful in the private sector.

Mrs. MORELLA. If you were sitting where we are, what advice would you give the OPM Director? Or what would you ask him?

Mr. KING. Ask him to slim down as much as his agency is being slimmed down probably would be the most therapeutic personal thing that could occur. I always hate to look in the mirror. You notice I never use the term lean.

But I would think that he should be dedicated to OPM's core functions and to our annuitants and to the benefits which we manage. He should be sensitive to the human dimension and when talking about cutbacks, avoid drifting into the academic or thinking in fiscal terms. Instead, he should translate the results into human terms and understand we're talking about individuals, their very lives, and in almost every case we're talking about how people define themselves as human beings in the context of their work. The OPM Director should not deal with them in a callous fashion or merely dismiss them as statistics.

Mrs. MORELLA. Final little comment. Any morale problems? Are you finding that your OPM people are suffering from a lack of feeling that we care about them or the Department cares about them? Do you have a problem with morale at all?

Mr. KING. We have—I think any place we are going through a transition, any place where we're talking about people who have been through very substantial RIF's—and that's an involuntary separation, as you know so well—our approach has been from the beginning that first we will treat this as if it were a death in the family. And I'm talking about the individual who's being affected, and that we work with them in the most compassionate fashion. We understand what people go through in this.

And Ed Flynn, if you'd like, could tell you the process that we used. By the way, in our outplacement, we've placed over 90 percent of the people who have lost jobs in the agency, either inside or outside of government. So we have an extraordinary high rate of settling people outside the agency.

Mrs. MORELLA. You placed 90 percent of these people?

Mr. KING. Yes.

Mrs. MORELLA. That's very impressive.

Mr. KING. It's a tribute to Mr. Flynn's leadership, but we couldn't have done it without partnership again. Because people in the agency volunteered, our partnership councils came in, they worked directly with people. It was an extraordinary internal effort and it's ongoing.

And again, it's people caring for people in the greatest sense in the American tradition of what that means, and applying it in a situation where I think it has been both dramatic and useful for all the parties.

Would that be fair, Ed? You worked on this on a daily basis.

Mr. FLYNN. Absolutely. I think the experience that we had certainly is difficult, but when you see the kind of commitment we made as an agency to help people make successful transitions, I think it demonstrates not only to those people, but to the people who remain in the Agency that in the midst of change, people can move on successfully. And it does help with the morale question.

Mrs. MORELLA. Have other agencies looked to you for advice on that?

Mr. KING. Oh, yes. And that's why Len Klein's worked on an enormous amount, through buyouts, Mr. Chairman, and Mrs. Morella. And I can't thank you enough for your work on that, on the buyouts. It's made an enormous difference.

The buyouts have been a major emphasis in the transition. You worked on that. You published a little newsletter. How many editions have you put out in the past 10 months?

Mr. KLEIN. About 60.

Mr. MICA. I want to thank you, Mr. King. Also thank the gentlelady for her questions and also for the experience she brings to the panel.

Now, yield to Mr. Mascara from Pennsylvania.

Mr. MASCARA. Thank you very much, Mr. Chairman. And thank you, Director King, for your testimony. And I enjoyed the meeting we had at my office.

I do have a sense that there is a sensitivity among your staff and others at OPM. But one of those warm bodies that you mentioned before happened to come into my office. He worked for investigations, back in the district. And he asked some very pointed questions.

First of all, one of the questions was is this agency going to cease to exist on October 1?

Mr. KING. No.

Mr. MASCARA. Do you have any idea when that will take place?

Mr. KING. The agency, you mean OPM or do you mean investigations?

Mr. MASCARA. No, no, the investigations.

Mr. KING. What we have done is set a date that we would like to have this resolved on or about October 1, mainly because it's fiscal year and we look forward. I believe that we should have some kind of a break date.

On the other hand, the cost implications, as you know so well, go well beyond October 1. And if there were legislative delays, the difficulty is that we're in the process of doing something we've never done before. I can't honestly give you time lines that I'm totally comfortable with. But we are using October 1 as a target date, or September 30, as it were, as a target date, sir.

Mr. MASCARA. OK. My constituent points out, and rightfully so, that these investigations in some cases directly impact on national security, perhaps would not be best handled by the private sector.

What are your thoughts?

Mr. KING. About 5 percent of all the investigations done in government are done by contractors. And from what we can tell—is that correct, Ms. Lattimore? We've done checks that these are done correctly, consistent with national security.

One of the issues here is, is part of it is the review, the actual review by the agency of the material that comes in. I think there's a very famous case right now with CIA, where the investigation work was done. The people analyzing it never made the translation from the raw field investigation into a policy decision. And that's where these things often get lost.

So it isn't questioning the investigation quality. There are many thousands of investigations being done by private contractors every year, the question before us here has other implications.

In this case, does the same individual believe that if he is in or she is in as a private contractor, then under the new OPM employee-owned corporation that they would be incapable of providing the same high quality work they're doing now? To be candid, I would say no.

I would think that they could do the same work they're doing and do it with the same dedication that they've done in the past. It's really a question of would they want to be in a private corporate entity, and there are some advantages there.

But that's another issue, Mr. Mascara, I'm sorry.

Mr. MASCARA. No, no, thank you.

And I guess this leads into the next question. We pointed out that under law many sources of information used in investigations are only available to representatives of government agencies.

So then I guess the question would be how would one from the private sector——

Mr. KING. I'd like to yield to Ms. Lattimore on this one.

Ms. LATTIMORE. Currently the OPM has an automated, integrated data base. It operates out of our Federal Investigations Processing Center in Boyers.

Mr. KING. By the way, Boyers is the cave up in Pennsylvania, it's a limestone cave.

Ms. LATTIMORE. That data base, through some years of effort and activity, has worked to have automated linkages to national defense and law enforcement agencies' data base, which allows us to do automated checks.

The effort to eliminate the investigation function in OPM and to privatize is not a decision that the data base needs to be disbanded. With our privatization options, as we look through them, we're looking at where would it be best placed and is that something that should be retained in OPM or should it be retained elsewhere in government.

Mr. MASCARA. My constituent made the point that during the Reagan administration there were attempts to contract out certain functions and one, including investigations, and that they ran into problems and it was abandoned.

Are you familiar with that?

Mr. KING. That's—well, it's not true, to the best of my knowledge, but I'll yield to Ms. Lattimore.

Ms. LATTIMORE. I understand that in the mid-1980's, there were some efforts to contract out on two levels. On one we had basically

as an agency more work than we were able to handle, and a number of agencies, defense investigative agencies and some others, were given delegated authority to procure their investigative services on the private market.

And some of those delegations still remain to date and, as we understand, work successfully for those agencies. OPM at one point also augmented its staff for a short period of time to do a number of investigative cases.

I've heard staff perceptions of the varying qualities of that. We have not been able to find any written assessment of the quality of the cases that those individual contractors provided.

Mr. KING. Mr. Mascara, DEA, which is very, very sensitive as to the background work done on their employees, that's done by a contractor, a private contractor. And that was done with our approval back in the 1980's. And they've maintained that relationship.

Mr. MASCARA. OK. Finally, and I realize it's difficult to quantify what kind of revenues would be available to OPM, but is the unit receiving money for these investigations?

Mr. KING. Yeah, we run it like a business, Mr. Mascara. We're running at this stage $1 million above break even on the costs.

It's a viable business at this moment in time, in large part because it's responding to that market that's out there. But that's after we've gone through some real management traumas, which we shared earlier, and we're merely saying that it's an area that should be more market sensitive than a government agency can be under its entire processes.

Mr. MASCARA. You said, Mr. King, it was $1 million above costs. Is that per month? I heard someone say——

Ms. LATTIMORE. Per month.

Mr. MASCARA. It's $12 million still in the red then?

Mr. KING. Oh, no, no, we're still running behind. We inherited, and then it went downhill, we had a start-off point of, what, about $4 million?

Ms. LATTIMORE. I guess when we first started working, we were about $44 million in deficit. Through some various management changes, cost containment efforts, and some different pricing mechanisms, we probably have reduced the deficit now to just around $34 million.

We've been operating since last spring in a posture where we would no longer increase the deficit, where at any accounting period our costs would have not exceeded our income. Our annual costs are running just about $71.5 million, and our income is running just about $73 million, and we anticipated that our costs would not exceed our income for any given period.

Mr. MASCARA. Thank you.

Thank you, Mr. Chairman.

Mr. MICA. Thank you.

If I may in this second round get back to a couple of points on my original line of questioning, which is again I'd like to see the real impact and numbers and dollars from the agency.

And some of this work is no longer being performed by the agency and is reimbursed from other agencies as the way they conduct some of their business, and also see some of the budget figures,

how many actual dollars we're spending and how many personnel, how much is proposed to be contracted out, both in what's proposed and what has actually taken place?

And in your role of performing functioning, for example, investigations, because you're going to cut primarily in investigations, and training, are your two proposals.

In the investigations area, you perform the service for your customers, the agencies. Have you been soliciting input from these agencies and what's their reaction as you've gone along?

Mr. KING. What I have done is I asked the President's Management Council to put this entire matter on the agenda for the month of March. Because I didn't want to go in there without having proposals from my own employees as to what needs to be done, so that this corporate entity that will evolve will meet the needs of the individual agencies.

So we're raising them, we've had correspondence with the security folks in some of the agencies. We expect to put a package together and present it to the Management Council, and then meet with every single client that we presently have on a one-to-one basis.

Mr. MICA. So that has not been done?

Mr. KING. No, not yet.

Mr. MICA. Well, that's one of the concerns that I have. Mr. Mascara got it from one individual. And since assuming this position, I get a lot of fan mail, and what I received just almost prior to this hearing is copies of letters that were sent to Ms. Lattimore, who heads up the Office of Federal Investigations.

And what I've got here, actually the date—I just received these, but the dates are pretty old.

Mr. KING. We have them from Energy and from Treasury.

Mr. MICA. I've got Energy, Treasury, INS. INS says we are also dismayed as to why OPM, which prides itself in being a customer-oriented agency, made such a far-reaching decision with no customer input. And this is dated a bit back.

And then the Department of Energy says it appears that the Office of Personnel Management is preparing to embark on an unacceptable, ill-considered course of action. This is dated January 13—I mean the original correspondence.

And from the perspective of the Department of Treasury, any one of these to happen would have a significant adverse impact on our suitability and security program. So it doesn't sound like there are a lot of happy campers and they're transmitting copies of this correspondence to me as chairman.

I'm wondering why there hasn't been some working with these folks to get some additional input rather than making the decision and now getting this reaction.

Mr. KING. Well, I think, Mr. Chairman, what you're seeing and you're hearing is really the contact that has been made. We're caught in a chicken and egg situation.

It would have been a fairly simple thing to move this out of government, period, to set up an employee-owned corporation to provide the service. But folks that are in here that are solid, comfortable bureaucrats, feel that they may have to do additional kinds

of work in order to make the accommodation for the employees who would be moving into the private sector.

They feel very comfortable right now, and I understand that. And I'm not being critical of them, it's a fact of life. We will get to them as soon as our employees have their proposals together. We'll resolve the issues. We have to, there's no choice in that. And I would like to report back a success story at the end of the day.

Mr. MICA. What core functions, as far as investigations and training, do you anticipate would remain with OPM?

Mr. KING. Whether it remains with OPM or another agency would not be at issue with me. I'm not interested in building an empire. But what I think should remain is that you'll need a security policy base and an area, a unit, that would do policy, and someone to manage the records that are confidential and should not just be turned loose.

Mr. MICA. Any idea—now between training, I guess, and investigations, you've got——

Mr. KING. It's about $164 million, as you know. It's listed, those are the total costs in there.

Mr. MICA. But you also have a significant number of personnel, probably over 2,000. What numbers do you think will be left?

Mr. KING. That's what we're in the process now. You catch us in the middle of a transition in which we're in the very—not in the middle of it, we're at the very early part of that transition now. We will keep the committee advised.

I don't have full answers at this moment. Because I really am looking at both of the units that are involved. And by the way, training won't be a single corporate entity, because it does several different things in training.

Mr. MICA. Now, you also oversee or have some access to what these other 1,600 agencies are doing, you have some interaction with 1,600 other personnel departments?

Mr. KING. In the personnel service, yes.

Mr. MICA. Then the 35,000 or whatever is number of personnel.

Mr. KING. Right.

Mr. MICA. Have you seen the President's budget in regard to what reductions are proposed in those areas? Do you have any idea what the impact——

Mr. KING. No, sir.

Mr. MICA [continuing]. Or am I just moving bodies from OPM to these agencies?

Mr. KING. The agencies, again, can have the service in training and in investigations done in the private sector and so that they're not on the Federal payroll and they're not located there.

Mr. MICA. The other question is, what will be contracted out to the private sector, and is there cost savings?

Mr. KING. OMB has been the agency that's looked at that and told us where the economy is.

We're looking at it from a point of view of pure management, Mr. Chairman.

Mr. MICA. Well, my intent is to see what's most cost effective for the taxpayers who are footing the bill for the whole show.

Mr. KING. That's a legitimate question, Mr. Chairman. I don't——

Mr. MICA. And we need to find out, is it more cost effective to do it the way we've been doing it with some changes, or are we just again back to the shell approach?

Mr. KING. I can't imagine why OMB would do that.

Mr. MICA. The other area—and I can't imagine you'd do that. But the other area that was interesting is retirement and insurance, which is, what, 1,600 employees, as I recall, and this is one area where you've advocated an increase.

I know there has been some automation and some updating. Rather than adding more personnel, are you looking at more automation, computerization?

Mr. KING. Yes.

Mr. MICA. And have you looked at contracting out this? Aren't there insurance companies or other processing folks that handle this on a routine basis who may or may not be able do it cheaper?

Mr. KING. On the retirement side, Mr. Chairman, it's something that we had looked at the costs and worked that out.

Ed, would you like to speak to those costs on the retirement? And this is really what we should have back for Mr. Moran's question on health care.

Mr. FLYNN. And I can do this I think fairly quickly and see if you have any other questions. I guess the first thing I would say is if you look at the cost of our operation in terms of providing pension services to Federal annuitants and survivors, we've looked at what other pension organizations do, both in the public and the private sector.

Our review of that suggests that we are about a third less expensive than any private/public or private sector pension organization, and anywhere from 50 percent to close to 100 percent less expensive than some public sector pension paying organizations.

So I guess the first thing I would say is that we're very efficient in what we do.

The second thing that was inside your question that I'd like to just respond to quickly, and that is whether or not technology can help enhance the level of services we provide. The answer is clearly yes.

We're working in two areas, one, to deal with some of the difficulties people have getting to us by telephone to transact business, as Mr. Mascara mentioned; and second, as I think all of you know, we're in the midst right now of a long-term development effort to develop a system to handle the retirements that will occur under the Federal Employees Retirement System. That is being done by a firm, Computer Sciences Corporation, working with us. It's an effort that will be completed in the year 2000, 2001.

But it will create a relatively modern, completely automated, centralized system to process retirements and related services for annuitants. So I think in both those areas, one, we're very efficient, and two, we're using technology wherever we can.

Mr. KING. By the way, as you know, Mr. Chairman, it has to be applied at a more rapid rate than it has in the past. And we're moving in that direction.

Mr. MICA. Well, I thank you for your responses. My questions have led to some additional questions, which I'll submit to you and solicit your response.

In the meantime, my time is expired, and I'll yield to the gentleman from Virginia.

Mr. MORAN. I thank the chairman very much.

Let me get into some very basic issues. First of all, I want to make the point that the Federal Civil Service system is the most efficient and in fact it is the most effective bureaucracy of any nation in the world. That's true. George would agree with that as well, I'm sure. And I needn't ask Connie.

Mr. MICA. And the least corrupt.

Mr. MORAN. And that's the next point I was going to make. Not only is it the most efficient and effective, it is the least corrupt.

As Mr. King said in his statement, we have gone through an historical transition. We have learned from our mistakes. I thought that was a particularly telling story that I plan to repeat often about Abraham Lincoln finally finding something that he could give to every office seeker when he had smallpox. But we learned from that. And in fact it has evolved.

And over that period of evolution, parts of it have become encrusted with these ridiculous layers of rules and regulations. It seems to me that, at least having been on both sides of the legislative and the executive branch, much of that was legislative branch not allowing for any kind of latitude or autonomy. And I think Mrs. Horner is going to share her thoughts on that.

But now we have a choice, whether we are going to continue to evolve or whether there's, instead of an evolution, there's going to be a revolution.

And I have some very serious concerns, and in my opening statement I tried to articulate it, that I want to see an evolution of the role of the Federal workforce and the central agency that leads it, provides example to it, and in fact coordinates it.

So I think OPM has a very important role to play, particularly under a strong President that has a vision of what he or she one day wants out of the entire Federal workforces.

But as I see these reductions being made, which really are very substantial, they may not be as substantial as other reductions, at least those that are contemplated, I know Canada is looking at a much greater reduction, but I think to reduce 12 percent of the Federal workforce is very substantial. I don't see the relationship between the people being cut and the functions being eliminated.

And in fact, the legislative branch has not approved the elimination of any programmatic functions as yet, for which any of these personnel reductions ought to be related. So what happens when we, in the rush to achieve personnel reductions and dollar savings, force out people, particularly the senior managers who have the institutional knowledge who can operate oftentimes far more effectively than anybody you could find in the private sector, because they're the ones with the higher salaries, and that program, that activity, that function, is still required to be performed by not only the legislative branch of government, but by the American people?

I think we could create a real disconnect between what people expect and our ability to actually provide that service. And here we've got all this rhetoric about customer service. If there are no people who know how to provide that service, then that service is not going to be provided.

And the Congress has to either eliminate the service so that there is no expectation of it, or reform its ways of achieving savings in personnel reductions.

And I am afraid that that is the situation we're getting ourselves into, and one of the reasons I have a particular concern about that is what happened with the Postal Service.

We've had these hearings, and I know Mrs. Morella has joined us on some of them, where in the rush to achieve the kind of downsizing that was being achieved in the corporate sector had to make ourselves more competitive, we let go thousands of mid-level people, 40,000 or more took those retirement incentives? Far more than anticipated. But now, about 6 months later, we're getting miserable service. It hit home when my newsletters were actually in a dumpster behind the postal service.

Mrs. MORELLA. Maybe it was quality.

Mr. MORAN. But do you know that it has actually cost us more money now to hire people to perform the functions that can no longer be performed by the senior people who were let go, who were given incentives to leave, because in many of these functions, we're having to hire two people to perform the job of one because the one person who achieved so much efficiency and had so much understanding of their job that they could perform it so much more efficiently and effectively.

And so in some parts of the Postal Service organization, the whole effort backfired. And we had to hire more people, albeit on a temporary basis, and spend more money.

So I want to ask Mr. King, this is my one question, having given him a little introduction, a little time to think about it——

Mr. MICA. If he may have time to respond.

Mr. MORAN. Do you see, Mr. King, a responsible relationship between the jobs that are being vacated, particularly through buyout incentives, and in fact the functions that must continue to be performed?

Mr. KING. The question was superb and it's on target. I think that the critical thing the post office did, it may have had the same mistake that a number of States did and a number of cities. And that was it said we're buying out, first *X* number of people to come to the pay gate, we'll buy them out.

And what you've had following every one of those is chaos, absolutely predictable. It's the fleet of foot, and generally the people that feel they can go somewhere else and make a good living somewhere else. And you lose in that sense.

Mr. MORAN. The people who are competitive in the private sector can find jobs.

Mr. KING. And I don't want to suggest those of us who are left somehow couldn't find our way on the outside, but included in there is a whole series of items. But I think you hit on target.

I think the way that Congress acted last year, they gave the authority for a buyout, but we had learned some lessons and we had advised the post office earlier, but that's neither here nor there, that what you do is you identify the jobs, not people, the jobs that you feel can be bought out, and where you may have a succession in there, fine.

And if you don't, you don't buy out, and you go unit by unit, you don't deal with personalities, you deal with what the mission of the agency is and the jobs. In this case, let me give you an example at my agency. We wouldn't offer a buyout to our operator mechanics. Well, for two reasons, if you've been on our 30-year-old elevators, you will know why we want people there to maintain them. But more than that, you can't easily replace them. So why would we retire or in any such position offer an incentive for someone to leave? That is a critical need.

I think Len Klein probably has more disappointed staff than any other single person in our whole operation. Virtually none of your people were offered buyouts, although there's a large number that would be eligible.

Is that correct?

Mr. KLEIN. That's right.

Mr. KING. And the reason we didn't offer them is we need them. We're looking at downsizing, we're looking at a whole series of other things. By the way, no matter how much downsizing we're doing, there are turnovers. Even at this stage when everything is going on, there are several thousand jobs that are filled on a regular basis that need to be filled.

Mr. MORAN. Yeah, but given your oversight function, is it your perception that other agencies are performing this responsibility in the same manner?

Mr. KING. Unfortunately, Mr. Moran, what generally happens is you don't find that out until the end of the day. The assumption is you try and lay out what should be done, you try and give them help and guidelines as to how they might manage it, and you continue through that process.

But generally you don't discover these things unless there's something gross that occurs during the process. But what you do is you find out at the end when you are doing the oversight and the auditing, that's when you discover mistakes.

Mr. KLEIN. No, not yet. But I might tell you that we have had several training sessions in our auditorium. We have had all the agencies over three times to talk to them about what works, what doesn't work, what mistakes we have made in the past. We provide them with standard forms to use, counseling on how they handle the system.

What we have seen so far, I think, is that the agencies are trying to make these decisions in a strategic way that they are looking at their operations. I am not saying we won't find when it is all over there is some agency out there that did something that wasn't too smart, but I think they are all really thinking about this and trying to do it in an effective way. They know the consequences.

Mr. MICA. I want to thank the panel for their response. I think Mr. Moran's question does go to the core of what we are here for today and what we will be doing in the months ahead and would just tell him that as the revolution proceeds, we will work with you on the evolution of OPM and our personnel practices.

I understand the deal with the Post Office, but that's under Mr. McHugh's chairmanship and I will ask him to investigate the dumpsterization of your newsletters.

Mr. MORAN. It is a little late now.

Mr. MICA. With that, I yield to the gentlelady from Maryland.

Mrs. MORELLA. Thank you, Mr. Chairman.

In the interest of time, I have always felt that one of the difficulties with being the first panel, you never have the opportunity to hear what the subsequent panelers are going to say. I had the opportunity to scan what Mr. Devine has written—which is a voluminous report—as a former director, and Connie Horner with whom I worked, and I have known Don for years.

I know you don't have time now to respond to the recommendations they have given. Incidentally, Connie Horner has said that she thought it was the least corrupt, most responsive workforce in her statement.

But I just wondered if you could respond briefly—not now because you don't have time—to some of the recommendations that they have made with regard to OPM. I would be curious about how you react to it from your situation.

Would that be all right, Mr. Chairman?

Mr. MICA. Yes. And we will leave the record open for OPM's response.

[The information referred to follows:]

HIRING SYSTEM REFORM

1. *"The proposal would eliminate the statutory definition of merit principles for examining and allow the President or his principal agent in the field—the Office of Personnel Management (OPM)—without Congressional action, to define them as each administration so determined."*

The proposal for civil service reform would not eliminate the statutory merit principle for examining. The January 20, 1995, draft legislative specifications specifically state that agencies would determine examining methods "consistent with merit principles, open competition, veterans preference, and other aspects of existing law." Accountability for compliance would shift to agency managers. OPM would oversee broad system compliance, not specific processes.

2. *"Veterans preference would be diluted by giving all disabled individuals the same preference as those who have borne the brunt of battle."*

The proposal to permit noncompetitive appointment of disabled candidates (including disabled veterans) is not new policy. The disabled can now be hired under excepted appointments and converted to competitive status after 2 years. Veterans who are at least 30 percent disabled can be given noncompetitive temporary appointments, with benefits, and be converted to permanent status at any time. The initial excepted and temporary appointments add no practical value; they merely substitute for the probationary period that is required for competitive appointments. The proposed legislative change would simply remove the unnecessary extra step.

3. *"A second set of proposals under the hiring section would eliminate temporary appointments and reclassify them as 'nonpermanent.' This would place present temporary employees under union grievance procedures (after one year), would allow them to compete at an advantage to outside applicants (after two years), would grant them health insurance (after a year), and within-grade increases (as earned). . . . The effect of these would be to remove many of the flexibilities and lower cost aspects of temporary employment for the government, and therefore make it less attractive to government employers."*

Temporary appointments have never been authorized for the purpose of avoiding the cost of benefits. They are intended to offer flexibility to meet fluctuating workloads without reductions-in force, and the proposal would preserve that flexibility. Nonpermanent appointments under the proposal would also replace term appointments, which already provide the same benefits as those proposed.

CLASSIFICATION REFORM

4. *"OPM is then directed to 'broadband' existing grades and let agencies increase pay within the now-higher capped salary grades, without the prior approval from any central source, except a labor union."*

"The agencies then would make individual pay decisions from the performance appraisals developed by the labor-management councils."

OPM is not directed to "broadband" existing grades. Rather, the draft specifications permit agencies to establish broadbanding systems which conform to Governmentwide criteria established by OPM. Systems that cover bargaining unit employees would be agreed to by the unions that represent them. Agency decisions regarding individual pay determinations would be based on the criteria and requirements of their systems. Nothing in the specifications provides that they would be based on "performance appraisals developed by labor-management councils." To the extent pay decisions were based on performance appraisals, such appraisals would be a management responsibility.

PERFORMANCE MANAGEMENT REFORM

5. *"All Presidential or Congressional standards of performance expectations are to be prohibited and replaced with standards bargained between agency management and their unions. Collective bargaining would be imposed not only for the design of work plans for all employees but also in the assignment of the work itself."*

The specifications would not change management rights, which are currently set forth in 5 U.S.C. 7106(a), including the right to assign work, which is the basis in law for standards being nonnegotiable.

6. *"Importantly, the procedures for taking action against poor performers would be 'either' to replace the present 'dual track for taking action' (of either merit system or grievance system) with a single system, or by 'streamlining' the current system 'without diminishing due process.' Since the second would seem to be a contradiction in terms—because the complexity of the present system exists to provide due process, and since no means is proposed to choose either approach, the former would appear to be the desired Clinton goal."*

Dr. Devine has misunderstood the draft specification proposal regarding the options for legislative changes to the procedures for taking action against poor performers. The "dual track" refers to the two statutory provisions (5 U.S.C. chapters 43 and 75) under which a performance based action may be taken, not to the appeal or grievance systems. Both of the current laws allow an employee to choose whether to grieve or to appeal such an action to the Merit Systems Protection Board. Therefore, abolishing one of these statutory provisions does not in any way affect an employee's right to choose between the appeal or grievance systems. The second option in the draft specifications would maintain both statutory provisions but would remove some of the procedural requirements in 5 U.S.C. chapter 43 which have made this process overly technical and far more time consuming than the chapter 75 procedures. Neither option includes any change to the current appeals or grievance system.

7. *". . . this 'reform' prohibits the President or his Governmentwide representatives from setting performance standards and, thus, from managing the Executive Branch. The Clinton reforms would effectively repeal President Carter's performance-based management law that lets executives set standards and to reward those that attain or exceed them."*

The proposed legislation would not change each agency's authority to set performance standards for its employees. It is agency heads, acting on directives from the President, who are in the best position to establish expectations for their own employees. However, the proposal would limit the ability of certain agency heads to set Governmentwide performance standards. For example, the Secretary of Labor could not direct agencies to include in Federal employees' performance standards a requirement pertaining to occupational safety and health. In any event, nothing in this proposal would limit the President in the exercise of his authority to hold agencies accountable for carrying out their missions and Administration mandates.

REDESIGN OF OPM AND ALTERNATIVE PERSONNEL SYSTEMS

8. "OPM could not set Governmentwide performance expectations, but the Director of OPM would be the responsible point of contact with Congress for all executive branch human resources management activity."

In fact, OPM has never set performance expectations for agencies. This has not mitigated our ability to monitor and oversee human resources management programs as they are implemented by individual Federal agencies. For example, the former 5 U.S.C. 4302a(f), which set part of the statutory basis of the Performance Management and Recognition System for managers and supervisors, contained a prohibition similar to that currently proposed. Specifically, it stated:

"The Office may not prescribe, or require an agency to prescribe, any specific performance standard or element for purposes of this section."

This prohibition caused no difficulties for the President or agency heads.

HIRING, FIRING, AND LABOR REFORM

9. "There is a reason for centralized hiring. General ability tests such as PACE are better in selecting qualified individuals than are any separate tests for particular occupations."

This paragraph confuses the method of examining with centralization. Many centralized exams—for engineers, scientists, technicians, and for administrative jobs above the entry level—did not involve written tests. OPM will be available to help agencies develop and validate written tests and other instruments, including structured interviews, that have proven successful in measuring candidates' knowledge, skills, and abilities.

Mr. MICA. Anything else?

Mrs. MORELLA. Thank you. No.

Mr. MICA. Mr. Mascara?

Mr. MASCARA. Only that I would caution you to go slowly. There are a lot of human lives involved in what you do and we talked about that, Director King, the other day.

I always have concern about people and people's lives. I am delighted to hear that you were able to effectively get jobs for, what, 90 percent of the people.

Mr. KING. Not all got jobs. There is a term of art of the settlement. Some went to school. Some decided they would retire. And some started their own business. We had a number of people actually get involved with that. But, yes, at the end of the day, they had made a decision to settle.

Mr. MASCARA. And I am familiar with ESOP, participated as a county commissioner. It is very difficult. In fact one of the shining examples were in Weirton, WV, when Weirton Steel engaged in an ESOP, and I think Avis, the employees purchased that agency.

And is the Federal Government in a position to help these employees to engage in an ESOP? Are they being offered professional help?

Mr. KING. If we can, Ms. Lattimore has been working with the investigators and Ms. Okin has been working with the training side, so we are——

Mr. MASCARA. Will they be given first opportunity to——

Ms. LATTIMORE. That's one of the things we are currently exploring now. We are hoping within the next couple of weeks, we will be able to come forward with some proposals for total or partial privatization of the investigative functions and that there will be opportunities for the employees if they desire to take over that business in the private sector, and we are also exploring ways that, at the least cost, we can find some professional assistance to do that.

Mr. MASCARA. Very good, because as Director King pointed out, within the agency itself, there might not be that top level management——

Mr. KING. That's correct, absolutely.

Mr. MASCARA [continuing]. Who actually have the ability of forming an ESOP.

Ms. LATTIMORE. We are looking at some of the professional ESOP advisers to help.

Mr. KING. There are some costs connected to that. I think they are modest in connection with the benefits are with all the parties, including the agency and the government as a whole.

Mr. MASCARA. I wish you well. I look forward to working with you.

Mr. MICA. Thank you, Mr. Mascara.

I would also like to take this opportunity to thank our first panel today. We have a sobering task before us as members of this panel, and you see that we are dealing with real people and real lives and real situations. We look forward to working with you and appreciate your prompt and open response to this panel.

And with that, thank you so much. We will let you go and we will be leaving the record open for members to ask additional questions or submit additional testimony without objection.

Mr. KING. We look forward to responding to that, Mr. Chairman. I thank you, and I thank the entire subcommittee and thank you for its kindness.

Mr. MICA. We need to move right ahead. We took a little bit more time than I anticipated, but I think it is very important, especially with the number of individuals who are involved in making some of these important decisions, that we committed the time and resources to that panel.

If I may call our next two witnesses, Dr. Donald Devine, who is the adjunct scholar of the Heritage Foundation and former director of OPM from 1981 to 1985, and Constance Horner, who is a guest scholar of the Brookings Institute and also former director of OPM from 1985 to 1989.

We welcome both of you to the subcommittee, and if you could stand for just a moment, we will swear you in.

[Witnesses sworn.]

Mr. MICA. Let the record reflect that the witnesses answered in the affirmative. And with that, we would like to call first on Ms. Horner and ask her if she could summarize her testimony, and then we will question Ms. Horner first.

Thank you.

STATEMENT OF CONSTANCE HORNER, GUEST SCHOLAR, THE BROOKINGS INSTITUTIONS, FORMER DIRECTOR OF OPM, 1985 THROUGH 1989; AND DONALD DEVINE, ADJUNCT SCHOLAR, THE HERITAGE FOUNDATION, FORMER DIRECTOR OF OPM, 1981 THROUGH 1985

Ms. HORNER. Thank you very much, Mr. Chairman. My testimony is quite short, so I think I will go through it.

Mr. MICA. Yes.

Ms. HORNER. Let me say first, though, that I want to express my great sense of deference to the incumbent in the position I used to

hold and Don Devine used to hold. I know how much more difficult it is to make these kinds of responses when you are juggling all the competing considerations within an administration.

And so I hope my comments will be offered in a spirit of support and assistance and whatever small amount of wisdom comes with the short passage of time outside of government.

I'd like to place my testimony in the context of three broad observations. First, as Congressman Moran said also, the United States Civil Service is without question the most responsive and least corrupt among the world's bureaucracies. And I think we often take this for granted. This is especially remarkable given its size and the diversity of its operations.

These qualities have been developed and sustained through more than 100 years of vigilance based on the recognition by political leadership in the executive and legislative branches that the civil service is a vital underpinning of Democratic government. Therefore, the first requirement of proposed change is that it strengthen, not weaken, institutional capacity for vigilance in the protection of the integrity of the civil service, especially its commitment to merit and fairness in hiring and promotion.

A second observation I would make is that the executive branch is a huge conglomerate, administering through its diverse elements over 150,000 pages of regulations and costing the taxpayer over $150 billion a year in pay, benefits, and pensions. Its activities are powerful, diffuse, and costly. Over the 11 decades of its life as a formal institution, the Civil Service has become increasingly encrusted with rigid systems of internal governance. These rigid systems impede efficiency and diminish the quality of managerial and executive decisionmaking. They should be deregulated and decentralized as the Clinton administration proposes.

My third general observation, however, is that it is a considerable challenge to retain the perception and the reality of governmentwide integrity which is the basis for public trust while devolving authority away from central agencies and personnel specialists. Nonetheless, this devolution is also vital to public trust, as it will, if done right, make government work better for the citizens it serves. Decentralization has been under way in fits and starts under experimental authorities and judicial decisions for well over a decade.

Now, under the impetus of the National Performance Review and administration budget proposals for the OPM, crucial decisions about the nature and extent of this trend are unavoidably approaching. These decisions will determine how effectively we will strike a new balance between oversight and regulation on the one hand and flexibility and autonomy on the other.

I would like to suggest, very briefly, several challenges to be met in attempting to achieve an effective new balance.

First, and perhaps ironically, decentralization of personnel decisionmaking can be effectuated most successfully in the near term under very strong central leadership. A central authority, operating under Presidential direction, is needed to define the envisioned change, activate agency commitments systematically, train management for a new workplace culture, measure progress as it oc-

curs, and correct violations of central tenets which threaten the integrity of the new systems.

Some leadership of this sort can be afforded by strong White House and interagency bodies. But cultural change is a lengthy process and institutional capacity to support it is important. Specifically, for example, line managers need to be educated in the ethical underpinnings of the merit system as they undertake greater responsibility for its execution. Facilitating effective cultural change requires people. The challenge is finding a new location between a stultifying status quo and a counterproductive, because of too rapid or extreme reduction.

Additionally, there is the challenge of determining how much oversight and what kind of structure of oversight is appropriate to a significantly decentralized decisionmaking environment. There is no question that major reductions in the workforce as a whole are warranted and indeed overdue. The structure of work has been undergoing a seismic shift, not only in the American private sector, but also in the governments of other democracies.

Recent reports suggest that the Canadian Government, for example, may be contemplating cuts of up to 30 percent of its national government workforce, compared with about 12 percent for the United States. However, workforce reductions must be tied to changes in the structure of work or to program terminations. If they are arbitrary, if they are designed for easy political effect or summary budget savings alone, they will produce a government that works less well.

In that light, the advisory, service-oriented role toward which OPM has been moving under the National Performance Review represents a structural change and, in my view, a desirable one. However, it would be an abdication of responsibility to reduce central oversight capacity beyond a certain point, especially during a period of major change.

There is another large challenge posed by OPM downsizing given the administration's desire to expand employee union powers, for two reasons. If managers are freed of excessive central agency controls, whether OPM's or OMB's, but required to bargain over newly decentralized authorities respecting classification of work—which implies, to a degree, pay—and over numbers and grades of employees assigned to tasks, then decentralization becomes a facade behind which line managers actually lose the greater flexibility decentralization and simplification are designed to provide.

Moreover, given reductions in Hatch Act protections enacted several years ago, there is a new environment in which to protect against violations of merit-based hiring and promotion. Perhaps in this new environment a sound approach is to "decentralize but verify."

Finally, there remains, even in a decentralized and downsized personnel system, a need for strategic planning. With the focus on downsizing—and appropriately so—it is important to remember that the Civil Service as a whole is a governmentwide institution in certain of its attributes and requirements, even when operationally decentralized, and therefore is in continuing need of broad leadership attention to assure its future. OPM, with the right ca-

pacity and strong leadership, can meet this challenge and help serve the interests of democratic government over the long term.

I would be happy to respond to your questions.

Mr. MICA. Thank you. We will go ahead and ask you questions first. And I had a couple of general questions.

When you were heading up OPM, how many individuals were employed there? What was the total FTE count?

Ms. HORNER. I don't recall. I'm sorry.

Mr. MICA. 6,000 range.

Ms. HORNER. The figure that sticks in my mind is somewhere between 5,500 and 6,000. I am not certain of that number.

Mr. MICA. When you spoke just a few minutes ago about the responsibility for the oversight role of OPM, what do you think we could end up accomplishing with the proposals you heard from the administration yesterday?

You heard Mr. King testify earlier that they are advocating additional cuts. Some, are in specific function areas, primarily investigations and training, but what kind of a core oversight responsibility would you see from your experience?

Ms. HORNER. Well, first of all, I think the single most important thing that OPM does, that the Civil Service Commission did before it is, to protect the integrity of the hiring and promotion practices of the Federal workplace.

Mr. MICA. For the entire Federal workplace?

Ms. HORNER. Yes. And, therefore—although it's never impossible to suggest that cuts would be acceptable—I think that cuts in that arena should be most carefully approached. I had not given a great deal of thought before coming here today to the investigations question.

My thinking, frankly, has evolved on that since I was OPM Director, and evolved more in the direction of retention of investigations rather than privatization of investigations. Privatization seemed a reasonable thing to me when I was there. And if I were sitting in the Director's seat now with all the information available, it might still seem reasonable and helpful to me.

But I am increasingly concerned about the potential for corruption in the Federal workplace. And I am increasingly concerned, not because I think there is more of it or that more of it is threatened, but that because of the public's deep concern about the Federal Government right now, even small but visible incidences of corruption have a disproportionately bad effect on public confidence in government. I would be very leery—I would move slowly and carefully in that direction.

Mr. MICA. I also understand that you served at a time at OMB, and I have heard some proposals for possibly even combining OPM, OMB, and maybe GSA into one agency to be assigned some of the functions in a consolidated fashion. What would your reaction to that kind of a move be?

Ms. HORNER. Mr. Chairman, I have an interesting perspective on that because when I was at OMB, I had the OPM portfolio and, therefore, when I was then appointed Director of OPM, I had to live with the budget that I had given myself and the FTE ceilings, and it was very difficult.

Two thoughts in response to your question. One is that I don't think that institutional reorganization solves problems in the absence of mission clarity. It doesn't do any good simply to consolidate or separate. There needs to be some serious thought given to mission and the decisions with respect to organization should flow from that decision.

I don't have a judgment on that right now.

The other principle I would apply to that decisionmaking is that it is always good to have some other institution located in government with the capacity to interject itself into any serious decision, because human nature being what it is, people will be more careful and more prudent and more honest if they know that there are other bodies able to comment on what they are doing.

Mr. MICA. Well, I appreciate your comments, and I am going to yield to the ranking member.

Mr. MORAN. I thank you, Mr. Chairman. And I thank Ms. Horner for her statement. I did not disagree with it and I found that it was a very positive perception of the role that OPM plays.

You might elaborate a little bit on your concern about the decentralization of OPM's function, first of all, to small agencies that may not have adequate human resource capabilities within the agency and so lose that resource that they have traditionally had at OPM to perform their classification and personal functions, evaluation and so on, and the larger agencies who, from your perspective, would be more likely to be entering into contract negotiations with Federal employee unions and how you fear that it may constrict their latitude.

Ms. HORNER. I began my life in government in a very small agency called ACTION, which only had several hundred people. And from that point of view, I think that OPM in every arena needs to retain the capacity to assist small agencies. It's simply wasteful to ask for duplication in every small agency.

I am concerned, as a strong proponent of decentralization, a very strong proponent of decentralized decisionmaking, that we not replace the current burdens on Federal managers which are represented by rules and regulations and short leashes from central management agencies with equivalently entangling constraints on their autonomy from negotiated union agreements.

I very much fear that they will make a bad trade if that's the trade. Labor-management relations can be effective in their outcomes for the taxpayer but, in my view, there are probably a lot of agencies where they are counterproductive.

With very strong decentralization, we have no way to assure that the interests of the taxpayer are served first and foremost. This is no denigration of the role of union leaders who, after all, are supposed to represent the interests of their members. The interests of their members often coincide with the interests of taxpayers and citizens and often do not and, therefore, there's a conflicting purpose there. That's why I think it is important for management to be as unconstrained as is prudent in the pursuit of its duties.

Mr. MORAN. I appreciate that. Thank you.

Mr. MICA. Thank you.

Mr. Bass.

Mr. BASS. No questions, Mr. Chairman.

Mr. MICA. Well, we thank you for your comments and your testimony and look forward to working with you as we pursue this important responsibility. And, again, thank you for participating.

You are welcome to stay, or if you have to leave, we understand. We will now call on Dr. Devine.

Mr. DEVINE. Thank you very much, Mr. Chairman, and members.

It is a pleasure to be here.

Mr. MICA. And also thank you for the length of your testimony which, without objection, I will have submitted into the record and we hope you can summarize. I did stay up, I want you to know, until 1 o'clock reading it. It is voluminous and we appreciate your in-depth commentary.

Mr. DEVINE. Unfortunately, that reminds me of a story. President Jimmy Carter, who had campaigned on Civil Service reform, the night before it was going to be signed, they were going to have a ceremony in the White House. My predecessor, a Democrat, Alan Campbell, gave the bill to President Carter. You know he has a reputation for reading everything he gets. And he stayed up all night reading the Civil Service Reform Act which, as bad as my testimony is, it is a lot easier to read than that.

He came down the next morning and Scotty Campbell asked him, "Mr. President, what did you think of it." He said, "Boy this is boring stuff, isn't it?" So I sympathize with you—with what you had to do to read this, and I promise you I won't read it all. I don't know how much I should read, really.

Actually, I stand in awe, as I always do, of Director Horner's testimony, of how smooth she can be in making some of the same points that I make. That's why she was so much more successful in government than I was. Those who know me know I draw things in rather straight lines. Sometimes you run into walls doing that.

I would like to comment on one thing Mrs. Horner mentioned in her testimony about oversight and leadership and the need for a central direction, or especially in relation to the testimony of Director King, whom I also have great sympathy and understand all the different pressures he's under.

That is to focus on oversight. Mr. King was forced—not by any reason of his own but because of the nature of how things are being run in this administration—to defer on the most important questions you asked him: to say that OMB makes those decisions. That's exactly why I recommend that at least you begin looking at combining OPM, OMB, and GSA, because you can't do your job of oversight if your responsibility is hidden away in different places around the Government, with nobody able to answer questions for you.

There is no central plan from what I can understand from Director King. If there is one, it's in OMB and it's under Presidential privilege.

During President Reagan's first term, with whatever ills or benefits we had, we published governmentwide guidance on how to administer the downsizing of government. We set an "attrition first" policy which, in my opinion, is not only cheaper but is by far the best in terms of dealing with the employees. And I think, frankly, the lack of a plan is a dereliction of responsibility—not on any indi-

vidual's part if there isn't some comprehensive plan that deals both with the question of efficiency, and the desires of employees and needs of the agencies.

I noticed that Director King mentioned an out-placement plan they had in OPM. We had an out-placement program for the whole government in which we placed people in other jobs who were displaced. The results we had: Over 90 percent of the reductions we made were done by attrition, and 90 percent of those received some kind of satisfactory separation—either in a job or training, mostly in jobs.

You are being asked—and I think Mr. Moran made the fundamental point here—you are being asked to make some enormous changes under this "Reinventing Government." The administration has proposed those enormous changes—mainly, as Mr. Moran said, on personnel—and there hasn't been much of a guideline given. If you haven't seen it, I very much recommend to you "Draft Specifications for HRM Reform," specifications which outline in as much detail as the administration has given so far, what its future plans are.

In my opinion, these future plans are very, very much in the wrong direction. They first deal with the section on hiring system reforms. To a great extent, and everybody who's testified, all members of the committee have pointed to the importance of the merit system principles. And there is no question those merit system principles are the most important part about the Civil Service in this government.

The fact is, these proposals would make enormous changes to undermine the merit system. In fact, as I read these recommendations—and I must say there's a good degree of vagueness here—I may make some of my statements stronger than can be fully supported, but I found that's the way you get attention for ideas in Washington.

But as I read this, there is enormous erosion of the merit system—in fact what I gather to be a replacement for the merit system. It says that the major changes which can be made either by streamlining the current system without cutting back on its protections—which is almost an impossibility because the protections are why the system is so complex—or to set up a single grievance system.

The great problem that President Carter had—the great concern Director Campbell had—was that at the last minute, in order to get the Civil Service Reform Act through, which was as a proposal a pure merit system reform. The last minute they had to accede to Federal sector unions' pressure and put a whole second system over the merit system, a governmental grievance system. The merit system is headed by the Merit System Protection Board. The grievance system is headed by the Federal Labor Relations Authority.

We in fact have two personnel systems in the Federal Government. Of course two can't work well. Nobody wants two systems that I know of, and yet we have two systems. And in a way I applaud what President Clinton is doing, which is to come up with a proposal to have one. One makes more sense than two that overlap and conflict with each other. I just think he's choosing the wrong one.

I don't think that we can turn this government into a grievance-only system and still have the President and his agency heads and the Director of the Office of Personnel Management and the rest, have the authority to carry out their mission.

The basic responsibility of the government is to carry out the wishes of the people. The mission is not to carry out what is bargained between unions and management. Now we need union input. We need employee input in the government. But we can't take management rights away, which is what these proposals portend to do. They take away the critical management right to define and assign work. That takes away management's most important power.

Second, the performance management principles would not allow the President or his Director of OPM to set any governmentwide performance standards. Think of that for a minute. Neither the President nor his representative, the OPM Director, can set any governmentwide standards for performance. I mean, that's taking away the President's constitutional power to decide how the government's run, to assure that the laws are faithfully executed. I'm very concerned about that.

I'm concerned about the hiring system performance proposals to allow the agencies to augment, as it says in the proposals, OPM's basic knowledge, skills, and ability criteria. And of course the problem with augmentation is overriding. It allows so-called exceptional individuals to be appointed noncompetitively. It undermines veterans' preference. I'm very concerned with this and, at a minimum, I would ask that the Congress and your committee give close attention to this.

Second, on the area of classification reform that Director Horner mentioned, when we are talking about classification, we are talking about pay. And when we put major pay decisions in the hands of agency officials where the responsibilities are so great and the temptations are equally great, we are asking for problems.

Several people mentioned today how free the government is from abuse. One of the reasons our Civil Service is so free from abuse is because we do have so many controls over abusive behavior. I think you should think very, very seriously before you think of decentralizing classification reform and, along with that, pay.

The performance management section I am very concerned with, too. It makes some statements about poor performers being denied general pay increases. But it also says that the probationary period can be shortened. Why would we want to shorten the probationary period by a year? Tell me that's in the interest of good management. This question of going to a grievance system—have unions set the criterion to work—do we really want to do that?

The longest sought goal—and I know because I met with the union representatives from the day I went into office until the day I went out, and at least in the beginning we had many good, two-way conversations about this—their No. 1 goal is to get rid of so-called permissive management rights from the current law.

The President has already issued an Executive order which has, in effect, already told the agencies not to exercise their permissive rights. But the proposal, the formal proposal, would put into law this change and it would take away the right of management to de-

cide which is the definition of the assignment of work, the fundamental definition. Again, nobody is talking about taking away discussion and input from employees or even employee unions.

But the question of the final decision on the work——

Mr. MICA. Dr. Devine, if you could begin to conclude because I think we can address some of the other points in questions.

Mr. DEVINE. I think I will conclude there.

I'm concerned with the direction the administration is going. I don't think there is enough authority for the Director of OPM. I believe we need a strong Director of OPM and I think the President needs a strong arm to help him deal with this widely distributed government.

I believe, in decentralization. I was the one in charge of decentralizing the overwhelming majority of the personnel examinations, in the range of over 700 in the examining of delegations alone are decentralized, but—and I don't know how much further we can go. Certainly, under current law, I have very serious questions now how much further we can go.

So I'll end just there and be happy to respond to any of your questions.

[The prepared statement of Mr. Devine follows:]

PREPARED STATEMENT OF DONALD DEVINE, ADJUNCT SCHOLAR, THE HERITAGE FOUNDATION, FORMER DIRECTOR OF OPM, 1981 THROUGH 1985

REINVENTING OR REDEFINING GOVERNMENT?

I. Introduction; What Kind of Reform?

As a former Director of the U.S. Office of Personnel Management, I am pleased to have the opportunity to appear before the subcommittee to give my views on the proper role of the government's central personnel agency. To do so it is necessary to begin with the proposals of the Clinton Administration to "Reinvent Government," as they relate to my knowledge and experience regarding the proper management structure for the Federal Government.

The Clinton Administration has made its program of Reinventing Government one of its major priorities. It has not until recently, however, provided many of the details of its proposals. In few areas are the details more critical than in reforming government.

Reorganization can, and often does, make an organization weaker and less efficient. A cabinet agency can be eliminated by shifting its functions to another department that will be more successful in obtaining higher levels of funding and more ruinous regulatory powers. Downsizing can either save or cost money, depending upon how much is contracted-out and how personnel are separated, especially if $25,000 buy-outs are utilized. And decentralization to smaller governments usually is more efficient, but not if it just sinks deeper within a single large bureaucracy.

For the Clinton Administration, reinvention presented problems from the outset. It desired to make government more efficient and reduce government personnel, but it had relied upon the Federal sector unions for election and did not want to alienate them. It was not possible for the unions to support or even ignore a proposal to cut 252,000 personnel slots unless something very valuable could be given in return.

Against the staff recommendations, which were personally overruled, project boss Vice President Al Gore proposed to give the unions equal power with management in labor-management councils. In addition, he promised the unions an involuntary dues check-off from Federal employees—without even requiring representation elections. The quid pro quo was codified in Executive Order 12871, making the unions "full partners" with management in the assignment and classification of work, and creating labor-management committees to enforce it throughout the Federal government. A presidential "partnership council," composed of union and Administration officials, recommended that these changes be submitted as law, together with a proposal for involuntary dues collection and union representation by card-submission rather than by secret ballot.

Following the 1994 election, the White House dusted-off its earlier recommendations to sell bureaucracy reform as a New Democratic initiative to regain the political offense. A leaked draft proposed removing "dead wood" personnel from the bureaucracy, and giving agencies more "flexibility" over job classification (and, therefore, pay), hiring and performance management decisions to increase efficiency. As a recognition of the new Republican majorities, the involuntary dues and card-submission plans were shelved. It sounded good but, as Mr. Ross Perot became famous for saying, the devil truly is in the details.

II. Clinton's Reinventing Government Proposal

Clinton's Draft Specifications for Reinventing Government

On January 20, 1995, the Clinton Administration released "draft specifications" for proposed legislation to implement the Report of the National Performance Review (NPR), popularly promoted as "reinventing government." The draft was said to follow a National Partnership Council set of recommendations for nothing less than "reinventing the Federal Government's human resource management (HRM) systems and processes."

The draft expanded upon the draft proposals of December 2, 1994, which were in turn based upon "Council's recommendations [that] were essentially consistent with those of the NPR." The resulting recommendations clearly would "reinvent" government as we have known it. The question is whether the proposed revisions would make government more or less accountable and efficient. With the publication of the draft, it is now possible to provide an answer for each of its major recommendations.

Hiring System Reform

The proposal would eliminate the statutory definition of merit principles for examining and allow the President or his principal agent in the field—the Office of Personnel Management (OPM)—without Congressional action, to define them as each administration so determined. The law now requires that "selection and advancement should be determined solely on the basis of relative ability, knowledge and skill, after fair and open competition which assures that all receive equal opportunity." While the rigorous standard of the law is often skirted, the Clinton proposals would legitimize present "examinations" that use other considerations. Agencies would even receive statutory authority to appoint "exceptional" individuals and applicants for "shortage" positions non-competitively.

Government unions long have sought to bargain over so-called crediting plans, setting knowledge, skills and ability (KSA's) criteria, and replace these legally established criteria with seniority or "experience" ones. More recently, ethnic and gender have been used to provide affirmative action criteria too. The Clinton proposals would transfer the authority to "augment" OPM government-wide skill standards to agencies and their unions so these other criteria could dominate the KSA's. More directly, agencies would be authorized "to determine appropriate evaluation methods, announcements, and other processes," and even to determine "when they need to announce jobs," limiting open competition. This would effectuate a long time goal of the unions to give first consideration (so-called "sequential consideration") to present members of their own bargaining unit, rather than to open competition to every citizen, as called for under present law.

Veterans preference would be diluted by giving all disabled individuals the same preference as those who have borne the brunt of battle. In addition, veterans preference would be eliminated from legal positions entirely, and veterans could be placed within "quality groups" to limit the individual protections to which they are presently entitled. Grouping could also be used to norm examination results for racial preference groups at the expense of veterans preference. At present, the greatest complaint of the veterans organizations is that the agencies do not sufficiently follow the OPM regulations on preference, a situation that would be aggravated by devolving examining fully to the agencies.

A second set of proposals under the hiring section would eliminate temporary appointments and reclassify them as "nonpermanent." This would place present temporary employees under union grievance procedures (after one year), would allow them to compete at an advantage to outside applicants (after two years), would grant them health insurance (after a year), and within-grade increases (as earned). Hour limits would be eliminated for part time employment and limits on details would be removed. The effect of these would be to remove many of the flexibilities and lower cost aspects of temporary employment for the government, and therefore make it less attractive to government employers.

The purpose of hiring reform is stated to be the streamlining of the Federal Government's "highly centralized" system. The recommendations are identified as de-

centralization of authority to agencies, reduction of the number of appointment types and elimination of barriers to internal placement. In fact, hiring for over 700 of the government's examinations is already decentralized to the agencies, all but so-called common-function appointments. The actual purpose is to legalize the practice of appointing individuals to positions without real KSA examinations, weakening merit as a principle in appointments, to end the existing special appointment status for veterans, to legitimize group-norming in examination selection, and to limit the flexibility of temporary appointments in the government, to encourage career employment.

OPM is given the role to protect merit principles of hiring even by the proposed Clinton reforms. But it is not made clear how. With the stated purpose of the reform to decrease OPM's role, effective enforcement would seem at cross purposes with the whole stated reason for the reform. What is clear is the standards for merit would be set by the Executive Branch, rather than by law with Congressional participation, and that each agency and its unions would create their own exams and administer their separate hiring in the Federal Government, with little oversight or special expertise provided by OPM.

Classification Reform

The reforms also propose to enhance agency and union control over pay relative to that of Congress. OPM is directed to establish its own criteria for pay classification, in "consultation with employee organizations," abolishing any statutory definition. OPM is then directed to "broadband" existing grades and let agencies increase pay within the now-higher capped salary grades, without the prior approval from any central source, except a labor union. The agencies then would make individual pay decisions from the performance appraisals developed by the labor-management councils.

OPM's authority to revoke an agency's classification authority if abused would be repealed, as would its authority to review the classification of positions except if requested by the employee. The review, therefore, would only be done to increase the pay grade of an employee, since no one complains about too much salary. OPM could review systems for compliance but only to direct corrections, not to force them. With OPM relieved of the obligation to assure quality, there would be less supervision, vastly increasing the potential for abuse, over something as tempting as a person's own compensation.

The effect of the classification reforms would be to transfer authority over pay increases (other than across-the-board general pay) from Congress and the President to agencies and their unions. Each agency would undoubtedly create expanded internal reviews and provide their own control systems, suggesting that more staff would be required. At this additional cost and duplication, the President, OPM and Congress would be asked to trust the agencies with governmental decisions most that are most in their interest to abuse. This is a grant of discretion a government employee would accept at great risk to himself and to the Government.

Performance Management Reform

All Presidential or Congressional standards of performance expectations are to be prohibited and replaced with standards bargained between agency management and their unions. Collective bargaining would be imposed not only for the design of work plans for all employees but also in the assignment of the work itself. Agencies would be required to create award programs to provide incentives for individual or group achievements but collective bargaining would be required to set the "substantial accomplishment" goals.

Poor performers could be denied a general pay increase. Yet, the probationary period could be shortened. Importantly, the procedures for taking action against poor performers would be "either" to replace the present "dual track for taking action" (of either merit system or grievance system) with a single system, or by "streamlining" the current system "without diminishing due process." Since the second would seem to be a contradiction in terms—because the complexity of the present system exists to provide due process, and since no means is proposed to choose either approach, the former would appear to be the desired Clinton goal. With the remainder of the proposed reforms adding union grievance procedures at every turn, presumably the purpose of the Clinton performance reform is to eliminate the merit system (and, ultimately, its Merit Systems Protection Board) and only utilize the expanded union-grievance one.

Besides eliminating the merit system protections for employees, this "reform" prohibits the President or his government-wide representatives from setting performance standards and, thus, from managing the Executive Branch. The Clinton reforms would effectively repeal President Carter's performance-based management

law that lets executives set standards and to reward those that attain or exceed them. The proposed reform would not return to the status quo ante but would impose collective bargaining over both the standards of work to be performed by employees—which some might accept as reasonable—but also the performance of the work itself. The reform truly would place in law the promise President Clinton gave to the labor leaders in his Executive Order to make the unions "full partners" with the career managers in the management of the Federal Government, while the President, his top appointees and Congress would be left observing from the outside.

Labor Law Reform

The number one goal of the Federal unions has been to weaken the strong "management rights" section of Jimmy Carter's Civil Service Reform Act of 1978. The Clinton proposal would eliminate the statutory "permissive" rights of management to decide appropriate staffing levels needed to perform work and to decide how work is to be performed.

The managements rights section would be replaced with a so-called "good government standard" that would make agencies "obligated to bargain collectively" over how all work is to be performed in the Federal government (including much of Congress). An agency-level "partnership council" of management and unions would be created to "to develop agency policies and regulations that are binding on agency components and bargaining units subordinate to the council." Present appeals to any "statutory third party"—presumably including the Federal Labor Relations Authority and the impasse panels—would be repealed so that the decisions of the joint labor-management councils would be final.

It is not clear how impasses would be resolved. Perhaps, it is assumed none will arise. A majority of either labor or management on the council might be able at the end to force their position through. If there were a management majority on the council, the only delay might be that of collective decision-making over that of an individual executive. The term collective bargaining, however, implies an equality between the two sides. Perhaps the existing situation applies until a new agreement is arranged, tying work performance always to the past. The draft specifications do not specify.

Redesign of OPM and Alternative Personnel Systems

The role of OPM under the proposed reforms is ambiguous. While decentralization from OPM is an avowed major purpose of the proposed reforms, each of the sections on hiring, staffing needs, classification reform, performance management, and alternative personnel systems authority give some type of oversight authority to OPM as the central personnel agency. Indeed, under the latter, OPM would have the sole authority to approve personnel systems radically different than the one proposed to Congress as the new law. OPM would only be required to "notify" Congress of even radical departures from the present proposals, although any change would have to be first requested by a "labor-management partnership agreement."

The difference under the Clinton proposals is the diluted authority for OPM's oversight, and the revised object of its enforcement power. OPM is authorized to investigate complaints brought to it by employees in hiring, to maintain an oversight program for hiring-classification-and performance, and to enforce all personnel rules. But it would be enforcing rules set by the President or the agencies, rather than merit principles established by Congress in law. OPM could order corrective classification action but could no longer revoke the authority so that an agency could continue classifying while not in compliance. OPM could not set government-wide performance expectations but the Director of OPM would be the responsible point of contact with Congress for all executive branch human resources management activity.

The only enforcement specified for OPM by the Clinton proposals is informing the President of violations "involving agency heads and directing corrective action." Thus, while the effective power for personnel decisions is given to labor-management committees, the responsibility rests in the hands of the political appointee heading the agency, enforced by the President. The power given to the President is for his OPM Director to cajole his agency heads. But neither they, nor OPM nor the President nor any other "statutory third party" would have the power to overrule their labor-management committees. The only enforcement is for the Chief Executive himself to remove his agency head from office.

Without power to order agency compliance or even the ability to set prior Presidential standards for performance, the OPM Director will be ignored—except by an annoyed President who will have been notified only when the abuse reaches the level of a political crisis involving resignation of a top official, or by a demanding Congress which will hold a neutered Director of OPM responsible for a process he

cannot seriously affect or even monitor, much less lead. Neither Congress nor the President would be able to hold responsible the labor-management committees making the actual decisions on work and pay standards and the actual performance of the work of the Executive Branch.

III. Real Reform of Government Management

People Are Demanding Real Reform

A reform meant to create "high performance government" ended by eliminating the responsibility of those in the unions and management councils making the major decisions, and gelding those with the legal responsibility for performance and oversight. The national Government certainly needs re-invention but Mr. Clinton's proposal would make things much worse. Leadership is transferred to committees and unions, assuring weak executive leadership. Too bad. As management expert Peter Drucker has written, building "entrepreneurial management into the existing public-service institution may . . . be the foremost political task of this generation."

Given popular views of government today, acceptance of the Clinton plan with its greater inefficiency to appease the unions would be the height of cynicism. Worse would be for the Clinton Administration to get credit for bureaucracy reform while actually making management more difficult. To truly reform government, Congress must get to know the details of the bureaucracy game, especially when reformers confound common understanding. For example, decentralization sounds good and makes sense in the private sector because its profit-and-loss bottom line signals if it has gone too far and endangered its profitability or even survival. Devolving functions to state governments makes sense too because local voters can sort out the details and vote out the elected lower-level official if things go wrong. The Federal Government has neither profit centers nor decentralized elected executives.

Decentralizing decisions within the Federal Government just shifts the decision further away from Executive and Congressional oversight. It creates less responsibility, not more. Labor-management councils, quality circles and group management ideas can be used in limited ways in government but never as much as is possible in the private sector. These methods can increase quality but they have the offsetting cost of delaying decisions. Only the knowledge that profits are being threatened, forces a decision in the private sector—and that decision is ultimately made by top management, not a committee. In government, there is no profit mechanism to limit delays. So a culture of inertia becomes the rule.

Government bureaucracy must be understood as very different from the private sector. As Ludwig von Mises' classic, Bureaucracy showed, government management is more difficult because it does not have the efficiency devices readily available in a market—the marvelous bottom line. To reform government, it is essential to understand the different management principles required for government administration.

The Need To Keep the Mission Simple

It was 1971 and the fabled Corps of Engineers had done the impossible once again. Responding to desperate pleas for assistance following massive loss of life and property in a series of hurricanes in the 1940s, the COE turned 103 miles of meandering, mosquito-infested swamp called the Kissimmee River in Florida into a 56-mile canal system protecting local citizens from flooding, utilizing the most modern electronically operated locks available to engineering science.

Flash to 1992 and Senator Bob Graham (D-Fla.) is threatening George Bush with the loss of Florida's citizen support if he does not agree to re-route the Kissimmee canal back to the original "river" at a cost of almost a half billion dollars. And who is to do the costly deed? It is the same Corps of Engineers, which understandingly did not like the idea of destroying its masterwork canal and turning it back into a swamp.

1971 was the era of can-do government and the COE was the government's best. Only the Marine Corps, the Federal Bureau of Investigation, the Social Security Administration and the Forest Service were even in the same league. All had mastered what academic expert, James Q. Wilson, would later identify as the essential ingredient for administrative success in government: a simple, clear mission with an imaginative leadership dedicated to it. Government can work, if it keeps it simple and continuously drives that simple message home to a cadre of dedicated subalterns.

Each of these agencies had a unambiguous sense of mission because they were given one by their larger-than-life, single-minded founders, who assured that their legacy was ingrained in their troops and communicated to all new recruits. It was, as Wilson stated in his magnificent book, Bureaucracy, "as if they felt the ghosts

of Sylvanus Thayer [of the COE], Arthur Altmeyer [SSA] and Gifford Pinchot [FS] looking over their shoulders," and of J. Edgar Hoover and Commandant John Russell too. They made government work.

What has happened in the intervening two decades is that government missions have been made enormously more complex. The COE was made great by instilling pride in creating engineering masterworks. When the political fashion changed from dams and hydro-electrical power and canals and flood protection to the environment, it was clear that mission would have to change. But what made COE efficient was the ability of the single-minded engineering mission to withstand changes in the political wind over a half century.

But when the wind came from too many directions, the mission had to bend or the Corps would break. In fact, the mission is bending and the COE is breaking too. For good government management needs simplicity of mission, and in absorbing environmentalism into the engineering ethos, the Corps is cracking under the ambivalence.

The same is happening to the other elite government institutions. The SSA was unmatched when it processed claims for old people. But when Congress gave it supervision over disability, its "pay benefits on time and accurately" ethos broke down. While it was simple to decide how old one was and clear whether one contributed into social security, evaluating medical evidence was subjective and giving checks to some and not to others appeared "unfair" to the SSA culture.

The FS foresters were fine at managing their domain until economists, engineers and conservationists were forced into the Service by Congress. They brought with them different definitions of "forest yield," based upon their own conceptions of what is "good" forest management. Divisions were created that confused mission and restricted performance.

The FBI is cracking too. As the Bureau was pushed more into drug, mob and gang investigations, its ethos of aboveboard, clean, professionalized and straight-forward investigation of complaints was transformed. Drug, mob and gang investigation all require undercover, dirty, unorthodox creation of cases, often skirting close to entrapment. So the Hoover ethos rebelled; and Waco happened.

Even the Marine Corps is feeling the pressure as society places multiple goals upon organizations that work best with simplicity. After all, it is difficult to find "a few good men" when you must hire women.

The paradox is that those who wish government to do all good things are the ones who destroy it. Government can only work efficiently if it does a few things and unambiguously assigns those missions to a few institutions with sufficient esprit de corps to do them well. The Founders understood this because they created a government that divided government responsibilities so that it could be administered more effectively.

What Functions Are National?

Modern times find American Government far from its Federalist roots. Beginning with the Fair Deal and during World War I, an expert bureaucracy was created that has continuously expanded the reach of its powers. A temporary weakness in state government and business finances during the 1930s depression led to a New Deal that solidified the position of the national government as the preeminent sector of American society. With the Great Society of the 1960's, the national Government expanded to spend almost one-quarter of total wealth and exercise regulatory control over most of the economy.

By the 1990's a reaction set in against the extended reach of the national government. Even such an establishment figure as David Broder could write that "federalism issues are back on the national agenda in a serious way." Governors were bargaining with the President and Congressional leaders in a way not seen in many a year, if ever before. The original Federalist government was to specify, primarily in Article I, Section 8 of the Constitution, the powers of the national government and to leave the rest to the states or to the people privately. That idea of the 10th Amendment, basically disappearing from Court decisions since the 1930's, now seems to be undergoing a revival.

The discussion on welfare policy reform, for example, has changed dramatically since the 1994 election, to where both political parties were outbidding each other to show their desire to decentralize power. There actually were serious proposals to transfer all of the 96 major welfare programs such as Aid to Families with Dependent Children, Supplemental Security Income, Food Stamps, Public Housing, General Assistance, Medicaid and on-and-on for the whole $300 billion to the states.

The passage of the Balanced Budget Constitutional Amendment, the promises of Republican Contract With America and even a Democratic President's stated desire to eliminate the deficit all put pressure on the national Government to cut programs

and eliminate functions. In this climate, it makes sense for Congress, the President and the people to re-evaluate what functions should be performed by the national, state or local governments and which to be performed privately—based upon constitutional grants of power and rational divisions of labor.

The first management priority is to set what functions should be performed by the national Government. All others should be transferred back to the states with a corresponding income source. Devolution to the states and through them to local communities and the private sector divides the work to make it simple enough to be performed efficiently. Both Constitutional grant and James Q. Wilson's administrative logic suggest that the national functions be limited so that they can be performed well. In a complex, interdependent world destroying large bureaucratic structures both in the public and private sectors, there is no higher goal for improving government performance.

Privatization: Reforming the Competition Process

Once the functions for the new, streamlined national Government are set, a budget can be devised to support it. Then decisions can be made regarding what work should be done in house by government employees and what contracted out to the private sector. Governors and mayors across the United States have recognized the benefits in reduced costs, efficiency and improved management resulting in contracting work out to the private sector and other forms of privatization. The California-based Reason Foundation has identified $300 billion of federal assets that could be put to more efficient use in the private sector, while increasing federal revenues.

Still, no recent U.S. president, unlike the chief executives at more local levels here or national leaders in other countries, has given contracting-out and privatization the top-level attention necessary to implement it widely, nor provided sufficient incentives to prevail against the predictable resistance of bureaucratic interests. The current U.S. program exists as a neglected backwater within the Office of Management and Budget (OMB) and receives almost no support.

Part of the reason so little is contracted out in Washington is that the procedure (called A–76) for comparing Government costs to private ones for the same work is skewed towards doing the work by the government. The federal pensions, for example, are badly under-valued and under-state the cost of government management. So the procedure comparing costs needs to be reformed first and then used to decide how to allocate the work.

Another reason is that not enough attention has been given to winning or at least neutralizing employee support. If part of the savings for contracting-out are given to the managers and employees who recommend privatized services, and the employees who agree to shift with the function to the private sector and to those who remain to oversee the operation, it is possible to lesson employee opposition. The more-or-less moribund so-called FED CO-OP program designed to give shares in the private firms to those federal workers who assist in making the transfer should receive greater attention. Indeed, the whole work of contracting-out and contract management must be reorganized in a new and rational manner.

Real Performance Management

The new workforce must be organized properly for a contractor-based system. Actually, contractors are the predominant part of national government already. Perhaps 8 million contractor employees dwarf the 2 million civilian Federal employees. Millions of state government employees also implement Federal rules. No one even knows the total number, much less is in a position to manage it properly. The problem is that the Government is still organized as if it were the 1930's, when the Feds did the work; and tried to do it all.

A new "core and spoke and rim" organizational structure needs to be created. A core Federal Government employment would consist of expert, highly-compensated individuals who would be the executives setting the plans and managing the contractors who perform the great majority of the work on the "rim" of the government. In between, "spoke" temporary employees with no benefits and no job protection would be used to fill in gaps in cycles demanding more core work than the basic government employment could momentarily fulfill.

This is where the Clinton reforms go astray. Rather than magnify flexibility, they propose to further bureaucratize through an additional level of labor-management committee involvement and to give protected status to formerly temporary employment. They also divide central responsibilities, duplicating work in each agency. Even the core workforce could be made more mobile if its pensions were made fully portable pension like a 401(k) private plan, which would not tie an employee so tightly for 30 years to a fob which often has become a burden.

Contract management has the substantial benefit that it accords with performance compensation. Rather than de-emphasize pay for performance and throw classification to the mercies of labor-management committees, OPM should be instructed to transmit to Congress a compensation system that rewards savings and mission accomplishment on time and on spec. The classification system should be broad-banded, but only under tight OPM control to reduce the normal temptation of agencies (shown in the demonstration studies already conducted) to push compensation up unnecessarily. While employee and even union input are essential, the final decisions need to be made on mission-accomplishment grounds by top agency management, under the supervision of the President.

Hiring, Firing and Labor Reform

With the higher quality permanent employee required by the core-and-rim staffing system, it is important to restore selection based upon knowledge, skills and abilities. OPM should immediately seek to end the sweetheart consent decree entered in the last days of the Carter Administration that abolished its Professional and Administrative Career Examination (PACE) for competitively selecting superior college graduates into government employment. Indeed, the decree was only to last five years, but has already placed the Federal Courts in control of hiring for 15 years.

There is a reason for centralized hiring. General ability tests such as PACE are better in selecting qualified individuals than are any separate tests for particular occupations. The only reason Courts have ruled differently is that Afro-Americans, on average, score below whites on them (so-called disparate impact). Certainly, an argument could be made for some temporary affirmative action but 15 years without an entry examination deserves some notice and redress. The courts have agreed to review the decree if the Uniform Guidelines on Selection Procedures are reformed. This challenge must be accepted so that Federal hiring is returned to the law that requires selection on KSA's. And OPM is the only agency with the knowledge base to take on the job of up-dating PACE.

As the law requires hiring to be based upon skills, retention and reward is supposed to be based upon good performance. The Clinton reforms establish reward and disciplinary systems, but they are based upon much greater union involvement. Indeed, the apparent purpose is to shift totally to labor-management control and union-grievance review. The likelihood that such a system will lead to higher standards of performance and more action against poor performers is nil. Unions just do not thrive being tough on performance or discipline.

True labor reform would be to take the other track. The answer is to eliminate the expensive and duplicative grievance system and re-establish a true merit system. It was the justification for a civil service in the first place and what President Carter desired before being required to defer to a union-dominated Democratic Congress to create the second system. Centralization of examining for common positions is still required by law, and is cheaper. OPM has been shown to select at between $10 and $15 less per applicant than agencies. Less hiring and less personnel resources generally will be needed when a small core of skilled professionals manage many temporaries and contractors with a single mission focus.

Give the Authority to the Managers

Jimmy Carter used significant political capital to give political managers the tools to manage the bureaucracy. Ronald Reagan, likewise, fought to sustain those tools for effective executive decision-making. For a few, short years it worked. More was accomplished with less, as measures of productivity increased as personnel were cut. The thrust of the Clinton reforms is to remove authority from the political and career executives that were the focus of the Carter reforms, and transfer the management authority to labor-management councils. The weakening of political control has been a long-sought goal not only of unions but the career manager-dominated American Society of Public Administration. A recent Brookings study was typical, suggesting cutting the number of political appointee positions by one-third.

Without political leadership, when the President gives an order, there is no reason to assume anything would happen down the line in the bureaucracy. That is why all of the responsibility in the law rests with the political agency head. In a perverse way, this is acknowledged by the Clinton recommendations when they give the power to the labor-management councils but the recourse against abuse is the political agency head. Democratic government, at some level, must place responsibility in the hands of political appointees representing the elected executive.

The Carter management reforms recognized this essential reality and moved this responsibility down the management chain to successively lower-level political executives, career executives and managers, down to the level where the work was

performed. All was bound together with a performance appraisal and performance reward system to set and enact the policy set by the President under the laws of Congress. Employee work groups and organizations can be useful in some situations and employee input and needs must be considered by management. But the need in effective government management is strong agency leadership in the model of the Thayers, Altmeyers, Pinchots, Hoovers and Russels. Even though these came from the career ranks, they were effective in political positions with the support of the President. To the degree the mission is simplified and the work contracted, the easier leadership becomes.

It is expecting too much of subordinate career executives and union leaders to make pay, hiring, firing and performance-rating decisions independent of political executives representing the President. Only the political appointees—because their rewards come from the president, not the system—have any incentive to resist the dominant cultural pressures on management not to make tough decisions. Turning control of these executive decisions to unions makes even less sense. Their whole purpose is to get more, in an environment where the public demands less. Clinton's "Reinventing Government" is not a policy but a union goody wrapped in tough language.

The Carter reforms as implemented by the Reagan Administration were based upon a management theory appropriate to government organizational reality. Leadership, simplicity of mission and work, and responsibility were the essence. Labor-management councils are rare enough in a private sector that has the bottom-line necessary to limit abuse. The Clinton proposal is untested, and the Federal workforce is too important to be used as guinea pigs in the experiment. The solution is to return to the Carter reforms and make them work. They can, with intelligent and dedicated leadership under sound management principles.

Implementing the Reduction: The Function of OPM

Whatever direction future management takes in the Federal Government, it is clear that its size will be smaller and that reductions will have to be made. President Clinton recommended a reduction of 252,000 positions, increased—to fully fund his crime bill—to 292,000. The Clinton reform suggests that agencies can set their own personnel plans, and their lack of a public plan is apparently the result. The alternative is to have a Presidentially-approved plan to manage the process efficiently and in accord with human resources management principles. This, I believe, is the purpose of OPM: to help develop and to manage government-wide personnel priorities set by the President.

As Chief Executive, the President is Constitutionally given the responsibility to "take care that the laws be faithfully executed." As such, he is given subordinate officers to assist in that task. The Director of OPM is assigned that responsibility for "administering and enforcing the civil service rules and regulations of the President" to assist him in managing the government. Most of the work of OPM could be—and should be—contracted out, but not the job of helping the President administer his far-flung organization.

By forbidding the Director or the President from issuing government-wide performance standards, the Clinton proposals attempt to take away the President's Constitutional right to run the Executive Branch. By transferring management rights from agency political heads, the OPM Director and the President to labor-management councils, the proposals strike at Constitutionally-protected Executive responsibilities. By granting agency labor-management committees the right to design and administer pay-classification, testing and hiring, and performance management systems, the proposals take the authority from Congress and the President to set basic management policies for the administration of the Government. They would deny the Director of OPM the necessary tools to assist the President to manage the Government.

It is irresponsible for the Executive Branch not to devise a central plan to manage the proposed personnel reductions. And OPM—presumably still possessing the necessary human resources management skills—should be a central part of that responsibility. A plan could be effected humanely without incurring major costs by setting a personnel reductions policy of "attrition first," as in the early Reagan years. A total freeze would need to be set early, only allowing exceptions for critical skills and to fill positions for essential functions. To keep agencies from subverting the employment reduction function, the process must be managed centrally by an agency with the expertise and clear focus upon personnel to make the policy a high priority, led by an official strongly committed to the President's personnel reduction goals.

The Office of Management and Budget (OMB)—close by within the Executive Office of the President—is one alternative to handle the exceptions process in a modi-

fied freeze. Yet, OMB has neither the needed skills nor will it have the necessary clear focus upon the mission. The reason is that the budget, not management, necessarily dominates OMB's perspective. OMB only seriously analyzes the cost effects of personnel to specific programs and agencies, never to true staffing needs, much less to the overall objective of reducing the size of the bureaucracy.

The Office of Personnel Management, by contrast, need not suffer from these deficiencies. OPM can devise a government-wide plan. It has the knowledge—or can regain it—of agency operations needed to assess true requirements. And through its special pay rates program, OPM can determine the need for specialized skills and provide the means to solve them. Thus, under a modified freeze, all agency requests for exceptions should be made to OPM and the latter agency should only be limited by overall budget levels already allocated to the agencies by OMB. Actually, the best answer, one that could save funds, would be to merge OMB, OPM, and the General Services Administration (GSA) in to a single Office of Management (OOM), as has been recommended often before, the last time by the Grace Commission. This would allow the contracting-out function to receive attention too.

Reductions-In-Force (RIFs) and furloughs should only be utilized when essential to keep costs within budget or to assure lower long term costs. If RIFs are used at all—and they must for certain operations if they are restructured—the Government should adopt the Reagan Administration proposals to make employee retention during downsizing based more upon performance than the current seniority-dominated weighting process, and to limit so-called "bump-and-retreat" rights, under which lower-level employees are routinely "bumped" out of the service by higher level individuals with greater seniority who are over-qualified (and overpaid) for the positions.

Modifying existent practice not only would lead to the better workers being rewarded and the work-product upgraded, but it would mean also that women and minorities would not be disproportionally affected by RIFs simply because they tend to have the least seniority. So-called buy-outs do not make sense either. To give an employee $25,000 to retire not only increases costs at the time but inordinately increases costs to the retirement system. Ultimately, increased costs lead to more separations than necessary. Moreover, a "core" employment emphasis relies upon an expert workforce, and buyouts entice the most skilled to retire.

By following the Reagan Administration workforce reduction guidance emphasizing attrition, but allowing some RIFs and furloughs, it should be possible to minimize the negative effects. Over 90 percent of the Reagan reductions were achieved by attrition—and many of these were moved to other positions through a newly-instituted placement program. By contrast, during the only other recent administration to reduce the bureaucracy by any comparable size, under President Dwight Eisenhower, almost 90 percent of the cuts were achieved by firings. Following the latter course is too expensive, and too inhumane. To deny an administration the obligation, the ability and resources to set a policy like attrition as a central policy would be a dereliction of responsibility, guaranteed to decrease personnel effectiveness and increase costs.

Indeed, there needs to be a fully comprehensive personnel plan if the currently-planned reduction is to be rational. Although administrative savings are often abused as a solution, they too must be part of any overall plan. An "attrition first" reduction policy is the first step towards an efficient solution. Benefits will also come under budget scrutiny in this era of limited resources. Federal retirement represents four percent of the budget—going to a relative handful of people. While these should not be unfairly disadvantaged, they do have earlier retirement and more generous benefits than all but a handful of their fellow citizens.

If there are not reasonable reform plans, unreasonable ones may be imposed. A relatively modest pension reform, for example, could simply limit future cost of living increases to the maximum dollar amount of the social security COLA increase. By doing so, it is possible to save a billion the first year, and $20 billion over five years. Likewise, slowly increasing the retirement age past 55 over a period of time would save many billions more. And these may be the least disruptive to the workforce. Other approaches may be better, but someone like OPM must be assessing these from a government-wide perspective if anything rational is to be done.

IV. Conclusion

The national Government badly needs re-invention. Too much of it does not work. Today, we have the worst of all worlds. The managers' public administration associations would like to go back to the pre-Carter system of decentralized authority to the career managers. The unions and the Clinton Administration want to decentralize to labor-management committees. I support the Carter-Reagan system plac-

ing authority and responsibility over a merit system in the hands of the elected President and his appointed team. Today, we have "none of the above." Some of the essentials of the Carter reforms were compromised to assure passage so that we have two systems operating together, then merit testing and performance pay were eliminated, and now management rights have been eroded by Executive Order.

I agree with President Clinton that supporting two entirely different personnel systems over one body of workers makes no sense. There should be either a merit or a grievance system. Either career managers, labor-management committees, or the President should be in charge. I would rather see the Clinton reforms adopted than continued duplication, irresponsibility, and extra cost. It would tie the Government in knots, but at least a destroyed system makes the silent argument that it needs to be rebuilt.

To some degree the die is already cast. President Clinton has issued Executive Order 12871 to implement his reform by decree. We shall see how it works. Given the presidential veto and the incumbent's need to satisfy the unions, probably no alternative reform is possible before 1996. Yet, it is necessary to set out the needed reforms now to prepare the way for that better day.

An expert, core workforce will demand merit system hiring, based upon skills and open to all, with a bit of a tilt toward those who have served their country honorably in the military. Staffing will need to be flexible, mixing a small permanent contract-managing core, temporary employment fluctuating with demand, and the overwhelming majority of the work performed by contractors. Classification would be made more flexible, but it is too subject to abuse not to be carefully monitored. Performance should be evaluated under mutually defined but managerially decided standards, directed and run by strong executives responsible to Presidentially-designated agency leaders. All should be under a single merit system run by the legally-responsible agency heads under the supervision of the President and his central assistants.

President Carter tried to establish such a system in the Civil Service Reform Act of 1978, and President Reagan did decentralize the great majority of both the examining and other personnel functions to the agencies where they now rest. The only functions held back—as the law allowed—were the President's right as Chief Executive to set standards of leadership performance, to oversee to prevent abuse, and to centralize for common functions in the interests of economy, efficiency and equivalent treatment (much of which could be contracted out). The Clinton reforms would place their trust in labor-management committees, and would duplicate examining research and testing, classification system creation, and performance management support in every agency of the government, at much greater total cost.

The Clinton Administration has made much in public relations promotions that it has cut thousands of pages of "red tape" by dismantling the Federal Personnel Manual. But all the FPM is, is a centrally-devised repository of laws, rules and management guidance put in one place for easy reference at low cost. The FPM is gone but, today, it is impossible even for Congress to obtain a copy of the regulations, even from OPM itself. What kind of management reform is this—the regulations still exist but cannot be accessed? Personnel officers privately confide that they have hidden away their old FPM for their own personal, secret reference. What happens to this wisdom when this generation of management experts is gone? This Clinton "reform" is an excellent example of silly, news-release management reform that ends up being penny-wise and pound foolish for increasingly resentful taxpayers.

We now live in an era where people are demanding real reform. Personnel policy must be part of the necessary re-evaluation. Total personnel costs equal 13 percent of the budget, and overhead adds 4 percent more. It is not a time to decentralize to labor committees and hope all turns out right, as do the Clinton reforms. Only an aggressive, centrally-managed policy will insure that real reform takes place. That plan would do the following:

(1) Congress and the President must decide what among the existing functions of the Federal Government should be retained, and devolve the rest to state governments or the private sector. The 10th Amendment requires nothing less.

(2) For the remaining functions, Congress must decide where tax-credits, vouchers, block grants to states or local governments, or direct Federal supervision should be utilized-recognizing that personnel are required least for the earliest-mentioned solutions.

(3) For those functions retained for direct supervision by the Federal Government, Congress must unambiguously set the mission so that it is simple enough to be performed in a rational manner with the resources available.

(4) For these remaining functions, agencies should provide plans to compete against private bids for relevant agency work under a revised competition procedure, amending A–76.

(5) OPM should prepare an A–76 competition plan for its own operations, assuring it can provide leadership and protect the merit system, and then submit its proposals to Congress for review.

(6) A model core-and-spoke-and-rim organization should be created by OPM as a guide to agency implementation, including guidance for effective contract-supervision and management leadership. OPM should report to the President regarding agency progress toward that goal.

(7) OPM should immediately produce management guidance for an attrition-first personnel reduction policy, including use of a personnel freeze, and procedures to protect the pension system from abuse as a result of excessive early retirements and buy-outs.

(8) OPM should revise the Uniform Guidelines for Employee Selection Procedure to comply with the law on equal opportunity and merit selection, submit them to the Court, and revise all examinations to be in compliance.

(9) OPM should maintain central and open administration of common function occupations for efficient hiring, and oversee classification and performance management, while continuing the general Carter-Reagan policy of decentralized management and centralized oversight.

(10) Congress should re-institute a pay-for-performance system, this time for all Federal employees and focusing upon contract-management, that preserves the Carter-Reagan system of responsible political and career executive direction and control, as well as appropriate employee consultation.

(11) OPM should prepare a series of options for reform of the Government's compensation structure, including making pension and other benefits more portable and more competitive.

(12) OPM should prepare a plan to eliminate the duplicate grievance personnel system to as great a degree as possible, abolish appropriate supporting institutions, and reassign any affected personnel.

(13) Congress should immediately over-rule Executive Order 12871, perhaps most simply done through an appropriations rider.

(14) OPM should prepare a plan to consolidate OMB, OPM and GSA into a new OOM, and submit the plan to Congress.

These reforms could not be accomplished overnight. But it is a measure of what really needs to be done to truly reinvent government so that it works efficiently. Expecting personnel, managerial, material and property savings of $50 billion plus per year, and $300 billion over three years, as a result of such reforms would not be unrealistic.

Reinventing government may be one of the few popular initiatives available to the Clinton Administration. So far, it has received favorable reaction for proposals that would make matters worse. The challenge is to redefine government effectively by devolving functions to local governments and the private sector, and re-structuring and reforming the remaining Federal functions to work more efficiently. To do this, one must carefully sort out the devils in the details—which is what we have attempted to do here—for the hopefully-smaller and more efficient government that survives the Era of the Contract.

Thank you for the opportunity to testify before you. I would be pleased to respond to any questions you may have.

Mr. MICA. If I may, in starting the questioning, Dr. Devine, how do you see the role of OPM in this new atmosphere, in this new responsibility?

What—and I think you also said that you saw a core spoke-rim concept of government management. How do you see OPM fitting in and what about its base responsibilities and how would it function if you were to structure it?

Mr. DEVINE. I think OPM needs to help the President manage the government to take an overall look at how the government runs. The President has to rely mainly on his agency heads. There is no question about that.

Mr. MICA. And oversight function and control?

Mr. DEVINE. OPM's main function should be to lead—provide the leadership Director Horner talked about, and second to provide oversight.

Mr. MICA. Also, in the atmosphere of RIF's and also some of these positions we are talking about having eliminated or being done by attrition, one of the major questions that comes up is, how do you retain good folks and then, how do you eliminate folks who aren't producing?

One of the complaints I've heard is, it takes so long to get rid of an employee. You saw that we have now insulated the process with the influence of unions and the new emphasis on controlling the workforce from within. How would you approach this downsizing? And then how can we deal with folks that we should eliminate, not only from a functional standpoint but their ability to perform? What would be your recommendation?

Mr. DEVINE. Well, I think there should be some governmentwide placement system administered by OPM, some of which could be decentralized to large agencies like Defense. As far as poor performers, it's very, very difficult to deal with that under the present system. I always emphasized—when I was OPM Director—focusing on rewarding the good ones as opposed to getting rid of the poor ones.

And unfortunately, since my time, many of the rewards you can give to the better ones you can't give anymore because performance—I mean, merit pay for managers, and some changes in executive pay—have been eliminated. I am very concerned about how you are going to motivate the good ones. As far as the poor ones are concerned, I certainly don't think you can shorten the probationary period. That's the time when we do get rid of poor performers in government.

Mr. MICA. Can we speed up the departure time? I am told it takes an average of 18 months to go through the process now, so many people are just frustrated, don't even deal with it, or the individuals get put into some other agency or responsibility.

Mr. DEVINE. Well, part of the problem is, if you had one system that people could appeal to, like the Merit System Protection Board, and not always have a grievance and an EEO and not all different kinds of ways of doing it. That's why it takes so long.

Mr. MICA. So we could speed up the process to a 90-day process or 120-day or something like that could be constituted?

Mr. DEVINE. Yes, sir.

Mr. MICA. OK. The other thing you said, you think too much authority has been given to the unions and they are now making the decisions. For example, in the area of veterans' preference, I read in your written remarks that now the merit system has been sort of perverted, that veterans preference is no longer meaningful, that other individuals have taken precedent.

How would you correct that situation and how would you address it?

Mr. DEVINE. Well, actually, I didn't say they were doing it now, except for one complaint I received, I don't know, because I haven't been there in a long time—but the biggest complaint I received from the veterans' organizations was that the agencies didn't pay attention to veterans' preference. And the degree to which you

move from centralized examining to decentralized examining, including a proposal the Clinton administration made for so-called quality group appraisal. To the degree to which you do that, it's harder to apply veterans' preference, it becomes diluted.

So to the degree you decentralize, you hurt veterans' preference. That's why the veterans organizations were very upset even with the degree of decentralizing that we had done, the vast majority of exams were decentralized already. What I would certainly not do is adopt the administration proposals that are circulating as a draft because they seriously would make things worse. Second, I think you need OPM's continual supervision to make sure that it is followed.

Mr. MICA. Well, I have additional questions, but I would yield to Mr. Moran.

Mr. MORAN. Thank you, Mr. Chairman. It is nice to have you before this subcommittee, Mr. Devine. I have heard a lot about you but never had the opportunity to meet you.

During my campaign that just concluded, my opponent made a big issue of my forcing the Federal employees to pay mandatory union dues. Was that an issue in your campaign with Mr. Hoyer as well? Did that come up?

Mr. DEVINE. Not a great issue. And of course dues checkoff was a recommendation made to the President which has now disappeared from the recommendations—I think, having a lot to do with what you commiserated about in the beginning of your testimony, that there's a new majority here.

Mr. MORAN. Well, in my case, it was absolutely untrue. I don't know where he got it, but I can't speak for Mr. Hoyer, but, boy, it gets annoying when somebody continues to charge you with something that is totally false.

But on the first page of your testimony, Dr. Devine, you say, "Against the staff recommendations, which were personally overruled" it is on page 1 here, the fifth paragraph of the first page:

> Against the staff recommendations, which were personally overruled, project boss Vice President Al Gore proposed to give the unions equal power with management in labor-management councils. In addition, he promised the unions an involuntary dues check-off from Federal employees—without even requiring representation elections. The quid pro quo was codified in Executive Order 12871, making the unions "full partners" with management in the assignment classification of work, and creating labor-management committees to enforce it throughout the Federal Government.

That is true to the best of your knowledge?

Mr. DEVINE. Yes, sir. I was told that by a reporter who received that information from a staff member of that committee.

Mr. MORAN. From a staff member of that committee. This is pretty important since it is congressional testimony and under oath of course. So I am going to ask Vice President Gore if he promised the unions an involuntary dues check-off from Federal employees, because I don't believe that to be true, and it is a central issue and I think a very important charge to make.

So I will ask you again, you are confident, without doubt, confident enough to say in sworn testimony that that's true?

Mr. DEVINE. Yes. I—as I told you, from my source, which I am not at liberty to give, but that is the source. And I don't consider it a charge—as you noticed, I didn't even mention that in my summary of remarks. I know the first meeting I had with the unions

was in the large conference room at OPM around the table there. There were a dozen or more of them and that's what they asked me for. And I don't think it is unreasonable for someone to give what they wanted to them.

As I say, I have a great deal of sympathy with President Clinton's position and Vice President Gore's position that there are two systems in the government now. It makes some sense to go to one rather than two and, from their point of view, it makes perfect sense to recommend to go to a grievance system—a grievance system only. So I don't consider it is a charge or anything unethical or underhanded. It's, to me, a very businesslike kind of thing to do.

Mr. MORAN. I want to make sure I understood that correctly. You think it is perfectly reasonable to have involuntary dues check-off?

Mr. DEVINE. No, no, no, no. To go into an agreement with the union leaders to give them that kind of system. I don't think there is anything wrong with that.

Mr. MORAN. What kind of—the system of involuntary dues check-off, to go into agreement with the unions to do as Mr. Gore has purported to have done, to go into an agreement where you would have mandatory dues check-off for Federal employees?

Mr. DEVINE. That was a recommendation of the committee, to give those as joint management-labor committee that was set up with national partner—no. I forgot it, that's a different committee.

Mr. MORAN. The labor-management councils. So that you think it is—I'm trying to understand exactly what you think is perfectly reasonable, that you would have collective bargaining, is that what you are saying?

Mr. DEVINE. No, that Vice President Gore would recommend it, or make an agreement with unions to have such a system. I mean, I oppose it absolutely, but it was a recommendation of the committee to the President, a consensus recommendation if I remember correctly.

Mr. MORAN. Which committee are you talking about?

Mr. DEVINE. What was it called? The National Partnership Council, made a recommendation—this was what your opponent was talking about. All right. This council made a recommendation to the President. This council was set up by the Executive order that the President signed. It set up this council to make recommendations to the President which they made before the election.

And those proposals were made to the President to give a dues check-off and representation election through submitting cards rather than through an actual election. That recommendation was made to the White House from that committee. There's no question about that.

Mr. MORAN. I don't question that. I would expect them to do that. But I don't find that to be of particularly great consequence. What is of consequence is how the President and Vice President would react to those recommendations and whether, in fact—I'll just speak for myself—whether I had any role in that.

You don't have to defend my opponent. I know that I had no role whatsoever in that. But I think it is incumbent upon you to verify what you say is the role that Vice President Gore took, which was to accept those recommendations and to promise involuntary dues check-off with the related ramifications which you go on to say,

that unions would be full partners with management in the assignment and classification of work and there would be not even representation elections, that unions would have equal power with management.

And that is what I'm getting at——

Mr. DEVINE. If you read that——

Mr. MORAN. Not a recommendation.

Mr. DEVINE. If you read that as a charge. I mean, I don't consider that as a charge.

Mr. MORAN. Well, then don't call it a charge. You are making it as a statement of fact. That's what I'm getting at, how factual is it?

Mr. DEVINE. Well, again, I was told this, so I'm repeating something I don't have absolute knowledge of, but the fact of the matter is, the recommendations were in the Executive order in terms of the assignment of work, and are in the draft recommendations that are circulating, and the dues check-off and the elections by card rather than secret ballot were on the council recommendations.

Now, I'm not trying to, you know, say Vice President Gore did all this or made any secret deal, I'm saying that—from the information I got, he overruled the staff on this. And, again, I don't see anything improper with that. That's the role of the executive to overrule staff.

Mr. MORAN. You don't see anything improper in the Vice President making a decision to have involuntary union dues check-off?

Mr. DEVINE. I don't see——

Mr. MORAN. And you don't——

Mr. DEVINE [continuing]. Anything improper for him doing it. Don't get me to say I agree with it. I don't agree with it.

Mr. MORAN. OK. See, I think that it is, in fact, it is in the form of a charge and it's made as factual statement, and I would be shocked if this was true. To the best of my knowledge, it is not. And I think it is incumbent upon us to find out whether it is in fact true.

The fact that a person of your stature would make this in sworn testimony under oath that this is a factual statement in your written statement, I think it's important to find that out and I am going to find that and pursue that.

I'm sorry to belabor this issue, Mr. Chairman, but, obviously, it is one that I'm sensitive to, and since I represent 70,000 Federal employees, a whole heck of my constituents are sensitive to it as well. Of course all of us get a whole lot of recommendations, as I'm sure you got any number of recommendations when you were head of OPM. The real issue is, what do we, how do we act on those recommendations which we choose to accept, which we ignore, which we turn down, and which we refine?

This one, if he in fact accepted this recommendation and made a promise, I think that's a terribly important issue, and you'll forgive me if I don't take it on face value but pursue it.

Mr. DEVINE. Let me respond to that. In the report of the Performance Review Council, in my opinion, you can—and I wrote a column myself at the time when it was out, before the subsequent events——

Mr. MORAN. I read that.

Mr. DEVINE [continuing]. That you could see all of this as at least implicit in the original recommendations. If that's so, obviously Vice President Gore agreed to it.

Now as far as the particular part about the dues checkoff and the votes without the election, I don't know about that. I'm talking about what to me is the most important part of that, in my mind, which is the definition of the work and moving to a grievance-only system.

Mr. MORAN. Well, wait a minute. You say here he promised the unions an involuntary dues checkoff from Federal employees without even requiring representational elections, and now you just say I don't know.

Mr. DEVINE. Well, if the promise means to you some kind of oath or something, that's not what I mean to say by that.

Mr. MORAN. It means whatever is in the dictionary. He promised—it means—I assume the words mean exactly what they say. And but what I'm confused about is now you're saying you don't know.

Mr. DEVINE. I'm using that in a—what's the right word?—metaphorical way. Don't take that as—I mean, I had, you know, what, 2 or 3 days to do this, 20 pages of testimony. I didn't go over the whole darn thing. Don't hold me to every word of it.

Mr. MICA. I don't think we can continue trying to get to the bottom of this just in this hearing, but I'll be glad to, with the Ranking Member, to address an inquiry to the Vice President. If you would like to——

Mr. MORAN. I'd like to do that.

Mr. MICA [continuing]. Get additional clarification, actually invite him to come and tell us how that's done. Because I think it will be an important element in some of our later discussions as to some of the very important policy developed by this administration and by this committee.

Mr. MORAN. I appreciate that suggestion. And I would like to pursue it. That's the best way to get at the bottom of that. Thank you, Mr. Chairman.

Mr. MICA. I think we will. And thank you.

I'll yield to Mr. Bass.

Mr. BASS. No questions.

Mr. MICA. OK. I know there's going to be a vote in just a couple minutes, and I didn't want to take much more time.

I noticed that you had also under the section—we should have tabs on this, Mr. Devine. It's entitled Hiring, Firing and Labor Reform. You recommended that OPM should immediately seek to end the sweetheart consent decree entered into in the last days of the Carter administration that abolished its professional and administrative career examination pay for competitively selecting superior college graduates into government employment. Indeed, the decree was only to last for 5 years but has already placed the Federal courts in control of hiring for 15 years. Could you elaborate on that and just comment?

Mr. DEVINE. Well, in the closing days of the Carter administration, literally the last week, a consent decree was signed—by the way, not by OPM in the Carter administration—by the Justice Department against the recommendations of the Office of Personnel

Management under my predecessor. This consent decree was signed which said we couldn't use that examination any longer because it had so-called disparate impact, which meant that the proportion of blacks and Hispanics taking the exams was disproportionate to the percentage passing those exams.

Mr. MICA. So you'd like to see us take some remedy to reverse that?

Mr. DEVINE. I think it's time—after 15 years of the courts running our main examination for college graduates into the government, where we have no real merit examination. I think it's time sooner or later to look at that.

Mr. MICA. Another criticism that you lodged I guess against the Clinton administration proposals, it says the only enforcement specified for OPM by the Clinton proposals is informing the President of violations involving agency heads and directing corrective action. That's not your idea of an oversight and responsibility, I guess?

Mr. DEVINE. Again, let me say that it's not totally clear from this document—as I said at the beginning—exactly what it means. But that's the only enforcement section I see there, against the agency head, and that is not what I think OPM should do. OPM should have a comprehensive role, although there is language through the rest of the proposal mentioning that OPM should do this and do that. But I don't see that there is any incentive given to OPM to actually perform oversight. I would suspect a prudent director of OPM with no real authority is going to sit back and wait until somebody brings something to him.

Mr. MICA. And, finally, one of your charges here says the decentralizing decisions within the Federal Government just shifts the decisions further away from the executive and congressional oversight. So you're saying that what's been proposed by the administration is not the direction to go, that we're getting further removed from the process, inability for oversight, for impact of having policy that's set either by the Congress or the administration actually seeing some net results.

Mr. DEVINE. The perfect example is one you elicited under questioning. There are 1,600 personnel agencies around the government. It is not possible for you to get 1,600 agencies to testify. You need to have the Director of the Office of Personnel Management in here, who is in a position to tell you what's going on in those 1,600 agencies, and not one that's denuded in power. I would feel sorry for that person. If this is passed—the recommendations of the President—an OPM Director is going to come here with no authority and be subject to oversight and be absolutely unable either to tell you what's going on, or to do anything about it if he did know. And, again, with absolutely no disrespect to Director King—I mean, he had to answer your major questions by referring you to OMB.

Mr. MICA. Well, I thank you for your comments.

And I yield back to the gentleman from Virginia. Did you have additional questions?

Mr. MORAN. That's OK. I think we've got a vote right now, so it's probably good timing to——

Mr. MICA. Thank Mr. Devine for his comments.

Mr. MORAN [continuing]. Thank Mr. Devine.

Mr. MICA. I do thank you. And you know in the short time that you had, this is quite a volume and should be referred to as we go along. We appreciate your counsel and Ms. Horner's counsel. You both have contributed greatly to Federal Government and to the Office of Personnel Management. We really look forward to working with you as we proceed, and with Mr. King and others.

The vote has been called. I think we'll reconvene at quarter of 1 and try to conclude the hearing. We have one more panel. That will give everyone a chance to get over there and get back, so that sharply, precisely, at quarter of 1 we'll reconvene.

[Recess.]

Mr. MICA. I'd like to reconvene the meeting of the subcommittee and also welcome Dr. Diane Disney and Fernando Alegria. We'll go ahead and swear you in now, if you'd raise your right hand.

[Witnesses sworn.]

Mr. MICA. Thank you. And, for the record, again we have Dr. Diane M. Disney, who's Deputy Assistant Secretary of Defense, Civilian Personnel, under the Department of Defense, and obviously representing a rather large civilian employee constituency; and Fernando Alegria, who's the Associate Executive Director of the Office of Administration and Personnel Management of the Securities and Exchange Commission.

And this, of course, is a much smaller operation, but it will give us a little bit of insight as to some of the recommendations relating to OPM restructuring and how they'll affect these individual agencies and operations.

If I may, I'd like to call on Dr. Disney first. Welcome.

STATEMENT OF DIANE M. DISNEY, DEPUTY ASSISTANT SECRETARY OF DEFENSE, CIVILIAN PERSONNEL, DEPARTMENT OF DEFENSE; AND FERNANDO ALEGRIA, ASSOCIATE EXECUTIVE DIRECTOR, OFFICE OF ADMINISTRATION AND PERSONNEL MANAGEMENT, SECURITIES AND EXCHANGE COMMISSION

Ms. DISNEY. Thank you, Mr. Chairman, and thank you for inviting the Department of Defense to present testimony today.

Over the years, DOD has worked very closely with OPM in developing and administering policies for human resource management. Beyond the mandated oversight activities, this collaboration has included joint task forces on a variety of issues, biweekly meetings of OPM's InterAgency Advisory Group, biweekly meetings of the Federal Prevailing Rate Advisory Committee, cooperation in waiving regulations that affect downsizing, and a variety of informal contacts to explore ways of improving the personnel systems operation.

We believe that there is a need for an agency such as OPM to set basic standards and to assure governmentwide equity for employees. In fact, if OPM did not exist, there would be a need to invent it. Its coordinating role helps avoid unnecessary duplication of efforts, while the oversight activities ensure adherence to law.

My testimony today is going to cover three basic areas: an overview of DOD's civilian personnel operations; downsizing within the Department of Defense; and some implications of OPM's restructuring to DOD.

First, for our civilian personnel operations. The Department of Defense employs over a million civilians around the world. With roughly 824,000 of these in the Federal Civil Service, we're by far the largest Federal employer. Indeed, we account for nearly half of the Federal civil servants. Additionally, we employ about 180,000 people through the Nonappropriated Fund system—these work in morale, welfare and recreation areas—and another 62,400 foreign nationals at our bases outside the United States.

Within the Office of the Secretary of Defense, the Office of Civilian Personnel Policy and its field activity, the Defense Civilian Personnel Management Service, employ specialists to develop policy, regulations, and rules and to oversee their implementation. There are additional personnel specialists throughout the Services and agencies who manage the system locally.

Because of the size and range of our activities, we employ experts in staffing, compensation and benefits, education and training, labor and employment relations, information systems, complaint investigation, workforce reengineering, research and other areas as well.

Let me take a moment to highlight some of the areas of significant accomplishment with this workforce over the past year:

We've met DOD's drawdown targets, secured funding for the civilian personnel regionalization and the systems modernization, developed labor-management partnerships, initiated liaison offices with Department of Labor for injury compensation. We've streamlined and increased our complaint investigations, established the Field Advisory Service, improved civilian leadership training, improved procedures for civilian workforce contingency management, and established the Reinvention Laboratory with the Office of Personnel Management.

It's been a busy year. Details on each of these activities appear in the written testimony supplied separately.

Over the coming year, we're committed to work more in each of these, as well as in three other areas of particular interest to this committee: improving the policy framework for civilian personnel management, simplifying personnel management, and streamlining the alternative personnel systems.

Let me turn now to our efforts in downsizing.

The Department of Defense has accounted for the overwhelming majority of cuts in the efforts to downsize the Federal Government. Our regular employment has fallen from just over 1.1 million at the end of fiscal year 1989 to under 900,000 in November 1994. Our reduction targets have been set by two administrations and the Congress. In fact, these targets were developed before the National Performance Review reductions were even proposed. The cuts themselves have been managed by my office, the military departments, and the defense agencies.

If you will permit some bragging about one of our programs in particular, this year marks the 30th anniversary of our Priority Placement Program. This is a pioneering effort to help displaced DOD employees find other positions within the organization. It's part of our Civilian Assistance and Reemployment Program. We call it CARE. CARE was designed to help the Department meet its drawdown goals of achieving necessary reductions, minimizing the

impact on civilian employees, helping laid-off employees, and maintaining workforce balance.

In the past 2 fiscal years, we have reduced civilian employment by roughly 115,000 people. Fewer than 8,000 of these separations were involuntary—that is, as a result of RIF or reductions-in-force. We try very hard to avoid RIF's. They are very costly in morale, productivity, time, and money. To do so, we've relied on a variety of policy tools, including hiring freezes, priority placement, separation incentives, outplacement assistance, and various collaborative ventures with other agencies, including OPM.

We've managed these reductions by being true to our goals and by holding steadfastly to mission and readiness requirements. We've delegated authority to the lowest levels possible to let managers determine where reductions are needed and which skills they need to retain. Our tools have allowed managers to control to a large degree who goes and when. We also pay constant attention to workforce demographics and the results of downsizing, most notably through a workforce reshaping task force, which our office manages.

And while we've managed the details, we're most grateful to OPM for help in our efforts. This help has come in a variety of ways including early retirement flexibility, some retirement eligibility, staffing at closing bases, training and retraining. Again, the written testimony provides details in each of these areas.

In other words, we've been able to work with OPM to develop alternatives that can make downsizing more humane and more efficient. We do not believe that OPM should either design or oversee our reduction efforts. However, the agency can and should facilitate the rule and regulatory changes, as well as information and program exchanges. OPM can identify agency initiatives which appropriately can be used throughout the government. It can also tailor or eliminate those which might work well at one time or place but might not be generalizable.

What of the implications of the restructuring? As mentioned earlier, our size and level of expertise set the Department of Defense apart from other agencies. For example, since 1978, our Civilian Personnel Manual has provided a vehicle for providing uniform, DOD-wide policies governing personnel. The current version is integrated with the Federal Personnel Manual. We're engaged in a massive effort to update and revise our manual due to the FPM's sunsetting and to comply with laws as we conform to National Performance Review goals and our own desire for deregulation.

In some situations, such as labor relations and intra-management communications, there are no OPM regulations. In others, such as administrative grievances, OPM is proposing abolishment. Where OPM regulations do exist, we conform our policies to those regulations. However, we are fully capable of designing and implementing our systems and programs in the absence of such regulations. While we see no need for OPM to regulate in those areas in which it is not now operating, we have found the OPM staff with whom we deal to be highly competent and capable of playing an important advisory role to agencies.

In conclusion, I must reiterate that DOD's size and experience will enable us to adapt more readily than other agencies to any

changes within the Office of Personnel Management. We applaud OPM's desire to simplify its operations, and we look forward to working with OPM as it decides which functions to retain and which to delegate. In doing so, we will be mindful of the tension between the benefits of decentralizing government and the need to provide cross-agency equity for employees. Similarly, we will help OPM to seek a balance between devolution of authority and the allocation of sufficient resources to fulfill the resulting responsibilities.

I thank you for this opportunity to present testimony.

Mr. MICA. Thank you, Dr. Disney.

[The prepared statement of Ms. Disney follows:]

PREPARED STATEMENT OF DIANE M. DISNEY, DEPUTY ASSISTANT SECRETARY OF DEFENSE, CIVILIAN PERSONNEL, DEPARTMENT OF DEFENSE

Mr. Chairman and Members of the Subcommittee:

Thank you for inviting the Department of Defense to send a representative to discuss the Administration's proposal to restructure and downsize the Office of Personnel Management (OPM).

Over the years, DoD has worked closely with OPM in developing and administering policies for human resource management. Beyond the mandated oversight activities, this collaboration has included joint task forces to study issues and develop recommendations, bi-weekly meetings of OPM's InterAgency Advisory Group of chief personnel officers, cooperation in waiving regulations that hindered or could hinder effective management of downsizing activities, and informal contacts to explore ways of improving the personnel system's operation. Therefore, I applaud the willingness of Mr. King and his staff to break through the paperwork barriers and help streamline the process.

We believe that there is a need for such an agency to set basic standards and assure government-wide equity for employees; if OPM did not exist, there would be a need to invent it. Its coordinating role helps avoid unnecessary duplication of efforts, while the oversight activities ensure adherence to law.

Currently, OPM is heavily committed to change, in both its structure and its mission. Because I have not had a complete briefing on all the changes, I must limit my testimony to those areas with which DoD has had experience. My testimony will cover three basic areas:

1. Overview of DoD's civilian personnel operations
2. Downsizing at DoD
3. Implications of OPM's restructuring to DoD.

OVERVIEW OF DOD'S CIVILIAN PERSONNEL OPERATIONS

The Department of Defense employs over a million civilians around the world. With roughly 824,000 of these in the federal civil service system, we are by far the largest federal employer; indeed, we account for nearly half of the federal civil servants. Additionally, we employ about 180,000 through the NonAppropriated Fund system to work in morale, welfare, and recreation. as well as 62,400 foreign nationals at our bases outside the United States.

Within the Office of the Secretary of Defense, the Office of Civilian Personnel Policy and its field activity, the Defense Civilian Personnel Management Service, employ personnel specialists to develop policy, regulations, and rules and to oversee their implementation.

Additional personnel specialists and assistants throughout the Services and Agencies manage the system locally.

Because of the size and range of DoD's activities, we employ experts in staffing, compensation and benefits, education and training, labor and employee relations, information systems, complaint investigation, workforce re-engineering, research, and other areas. Let me take a moment to highlight some of the accomplishments of the past year:

a. Met DoD Drawdown Targets

I will provide more details on this later.

b. Secured Approval of and Funding for Civilian Personnel Regionalization and Systems Modernization

The culmination of intense analysis, compromise, and consensus building, this approval sets a course for the future of civilian human resource management. With the establishment of regional servicing centers and the movement of all DoD components to a standard, modern data system, the ratio of employees served per personnelist will climb from the current 60 to 100 by FY 2001. After the new system is in place, DoD will save about $156 million a year.

c. Developed Labor-Management Partnerships

The Office of Civilian Personnel Policy continued to use its Presidents' Roundtable to involve union, employee, and managerial groups, as well as the Services and Defense Agencies in civilian personnel policy. More significantly, we managed to have the Defense Partnership Council chartered and its bylaws adopted. Further, the staff provided partnership training to over 700 senior managers and their counterpart union representatives in support of the National Performance Review.

d. Initiated Liaison Offices for Injury and Compensation

We located field liaison offices at Department of Labor (DOL) offices, through which technical experts have provided advice and guidance to the 400+ installation personnel on Federal Employees' Compensation Act (FECA) matters. Review of injury claims at DOL and encouraging installations to re-employ injured workers resulted in 158 successful placements. As a direct result, actual one-year savings exceed $3 million, with potential savings exceeding $101 million.

e. Streamlined and Increased Complaint Investigations

Our Office of Complaint Investigations (OCI) reduced its work-in progress inventory by a third while reducing staffing levels by 8 percent. It increased monthly production almost 20 percent through economies of scale, staff training, and streamlined procedures.

By implementing mediation, OCI has enabled local parties to achieve settlement in over half of all mediation attempts. Conservatively, OCI's use of mediation has been saving DoD at least $8 million a year; with all investigators becoming trained mediators, the savings should rise even higher.

f. Established the Field Advisory Service

An internal directive required that positions be transferred from the Components to establish a central Field Advisory Service. This became fully operational in FY 1994, with a consolidated program providing technical advice on common human resource issues. The result is meeting needs with fewer staff members while exceeding customer expectations for timeliness.

g. Improved Civilian Leadership Training

The Office of Civilian Personnel Policy has engaged senior Component personnel managers in the development of an integrated, systematic program of human capital investment to improve leadership training for civilians, a key readiness issue. Further, as 1994 ended, the Executive Leadership Development program was expanded to include its first Science and Technology Week.

h. Improved Procedures for Civilian Workforce Contingency Management

The staff developed a comprehensive directive on Civilian Workforce Contingency and Emergency Planning and Execution. These procedures are essential as the role of civilians in military activities continues to expand. On a related item, we translated "total force" into meaningful policies by making civilians who served in the Gulf War eligible for evaluation and care in our military medical facilities under the same conditions as active duty military.

i. Established the Reinvention Laboratory with the Office of Personnel Management

Our Information System Division conceived of, planned, and established the Reinvention Laboratory as a showplace for automated business process improvement efforts. A joint effort with OPM, the Laboratory serves as a testing and display vehicle for computer software innovations in processing personnel actions.

Over the coming year, we are committed to further work in all of these areas, as well as three other areas of particular interest to this committee:

- improving the policy framework for civilian personnel management;
- simplifying personnel management; and
- streamlining the alternative personnel systems (those falling outside Title 5, such as the intelligence community).

Let me turn now to our efforts in downsizing,

DOWNSIZING AT DOD

The Department of Defense has accounted for the overwhelming majority of cuts in the efforts to downsize the federal government. Our regular employment has fallen from 1,117,000 at the end of FY 1989 to 887,000 in November 1994. Our reduction targets have been set by two Administrations and the Congress. In fact, our reduction targets were developed before the National Performance Review reductions were proposed. Actual cuts have been managed by CPP/CPMS, the Military Departments, and the Defense Agencies.

This year marks the 30th anniversary of our Priority Placement Program (PPP), a pioneering effort to help displaced DoD employees find other positions within the organization. It is part of the Civilian Assistance and Re-Employment (CARE) Program, which my office designed to help the department meet its drawdown goals of achieving necessary reductions, minimizing the impact on civilian employees, helping laid-off employees, and maintaining workforce balance.

In the past two fiscal years, we reduced civilian employment by roughly 115,000 people; fewer than 8,000 of these separations were involuntary, that is, as a result of Reductions in Force (RIF). We try very hard to avoid RIFs because they are so costly in morale, productivity, time, and money. To do so, we have relied on a variety of policy tools, including hiring freezes, PPP, separation incentives, outplacement assistance, and collaborative ventures with the Department of Labor and OPM. Our separation incentives, or buyouts, started in January 1993; roughly 54,000 employees have taken them so far. Further, over 8,000 employees have retired under the Voluntary Early Retirement Authority (VERA).

In the central CARE activity, PPP placements increased to an average of 900 per month for FY 1994. The program's interactive bulletin board system now connects personnel offices worldwide with the CPMS Systems Support Branch. This connection has allowed us to process an average of 19,000 registrants a year, up from a few thousand several years ago.

Despite the heavy drawdown, between the end of FY 1989 and the end of FY 1994, the percentage of women among civilian DoD employees held steady. Although the relative percentage of women in blue-collar occupations fell slightly, the percentage of mid- and high-grade white-collar positions going to women increased. For minorities, the relative percentage rose in all General Schedule categories, although growth rates varied by subgroup. Much of these successes can be attributed to intelligent, aggressive use of buyouts and the Priority Placement Program. PPP is in fact the best protector of our capital investment as it lets us transfer valuable assets to other locations within the Department.

We have managed our reductions by being true to our goals (reduce staff; avoid involuntary separations; assist employees; achieve balance) and by steadfastly holding to mission and readiness requirements. We have delegated authority to the lowest levels possible to let managers determine where reductions are needed and which skills they need to retain. Our voluntary tools (incentives, VERA, hiring authority) allow managers to control to a large degree who goes and when. We also pay constant attention to workforce demographics and the results of downsizing, most notably through a Workforce Reshaping Task Force managed by the Office of Civilian Personnel Policy.

While we have managed the details, we are most grateful to OPM for assistance in our efforts. Help has come in a variety of ways, including the following:

a. Early Retirement Flexibility

OPM allowed us to expand early retirement authority to cover locations where we could create placement opportunities. This set the stage for cross-component incentives.

b. Retirement Eligibility

When we closed Eaker Air Force Base (LA), we learned that a woman would be separated only three weeks before she was eligible for a retirement annuity; yet she had to be let go. We worked with OPM, which agreed to publish a rule change to allow employees to use annual leave if that would let them reach retirement eligibility. This Title 5 change, of course, helps all federal agencies, not just DoD, to manage downsizing more humanely.

c. *Staffing at Closing Bases*

In June 1992, Deputy Secretary of Defense Atwood asked OPM Director Newman to delegate to DoD the authority to waive regulations on dual compensation, along with temporary hiring authority. We received the former, as well as alternatives to help with temporary appointments.

d. Training and Re-Training

When we closed Mather Air Force Base in California, regulations at the time made it impossible for the Department of Labor to help with retraining employees until RIF notices actually were distributed. We worked with OPM and DOL to develop a "Certificate of Expected Separation" which may be used six months in advance of a RIF to receive eligibility for Job Training Partnership Act programs.

In other words, we have been able to work with OPM to develop alternatives that can make downsizing more humane and more efficient. We do not believe that OPM should either design or oversee our reduction efforts. However, the agency can and should facilitate the rule and regulatory changes, as well as information and program exchanges. OPM can identify agency initiatives which appropriately can be used throughout government as well as tailor or eliminate those which might work in one time and place but are not generalizable.

IMPLICATIONS OF OPM'S RESTRUCTURING TO DOD

As mentioned earlier, our size and level of expertise set the Department of Defense apart from other agencies. For example, since 1978, our Civilian Personnel Manual has provided a vehicle for publishing uniform, DoD-wide policies governing civilian personnel. The current version is integrated with the Federal Personnel Manual (FPM). We are engaged in a massive effort to update and revise our CPM due to the FPM's sunsetting and, more importantly, to comply with laws as we conform to National Performance Review goals and our own desire for deregulation.

In some situations, such as labor relations and intra-management communications, there are no OPM regulations; in others, such as administrative grievances, OPM is proposing abolishment. Where OPM regulations do exist, we conform our policies to those regulations. However, we are fully capable of designing and implementing our systems and programs in the absence of such regulations. While we see no need for OPM to regulate in areas in which it is not now operating, we have found the OPM staff with which we deal to be highly competent and capable of playing an important advisory role to agencies.

In conclusion, I must reiterate that DoD's size and experience will enable us to adapt more readily than other agencies to any changes within the Office of Personnel Management. We applaud OPM's desire to simplify its operations and look forward to working with OPM as it decides which functions to retain and which to delegate. In doing so, we will be mindful of the tension between the benefits of decentralizing government and the need to provide cross-agency equity for employees. Similarly, we will help seek a balance between devolution of authority and the allocation of sufficient resources to fulfill the resulting responsibilities.

I thank you for this opportunity to present testimony.

Mr. MICA. And now we'll hear from Mr. Alegria.

Mr. ALEGRIA. Thank you, Chairman Mica, for inviting me here today to testify on the administration's proposal to restructure and downsize the Office of Personnel Management. My comments will focus on the impact of the proposed changes and particularly as they relate to small agencies like the Securities and Exchange Commission, which has only approximately 2,700 employees.

I was pleased to hear that members of the subcommittee are sensitive to the fact that the needs and problems of small agencies like ours are very different from those of large departments and agencies like the Defense Department. In general, I think that most of the personnel community agrees with the significant changes in the philosophy and operations of OPM. I also think that the support stems from the fact that the personnel regulatory framework had become overly complicated with too many burdensome and inefficient requirements, and we're pleased to see that OPM is moving quickly to implement many of the changes recommended by the National Performance Review.

However, we do share a concern with the subcommittee, and that is that downsizing OPM too rapidly without an adequate transition could undermine the high level of expertise that OPM's staff have developed over the years. With small numbers of personnel special-

ists, small agencies like the SEC need to rely more on OPM for advice and technical assistance on complex issues.

I would now like to address three of the key questions that were posed by the subcommittee.

The first one is, can each agency and department effectively manage the personnel functions without strong direction from a central personnel agency?

While I think that this is possible, the best arrangement would be for OPM to function as a central service and advisory agency. Its focus should move from direct control of processes and procedures to disseminating broad policy frameworks intended to uphold the basic merit principles. As long as agencies meet certain minimum standards, they should be able to develop procedures to implement basic requirements which are tailored to their individual needs.

The second question is which activities should remain centralized and which can be readily delegated away?

We believe that the regulatory, advisory and coordination functions need to remain centralized at OPM. However, agencies need more flexibility and authority to accomplish such activities as recruit and hire directly. This means having the flexibility to develop streamlined procedures for selecting the best applicants while still being accountable for maintaining the merit system's principles, and implementing staff reductions within more flexible guidelines, to deal with the mandate for agencies to restructure and downsize.

There also needs to be governmentwide consistency on certain basic issues relating to conditions of Civil Service employment, such as guidance in the area of benefits, pay determinations, retention rights, adverse action development procedures and labor-management relations. In all these areas, OPM could play an important role by providing interpretive guidance.

In addition to its advisory role, OPM should continue to manage governmentwide benefits programs such as retirement, health benefits, and life insurance. Central OPM control of these programs offers the advantages of group purchasing power, maximum choice and lower administrative overhead costs.

OPM should streamline the regulatory requirements involving the Senior Executive Service and reduce its role in qualifying selected applicants for entering into the SES. Specifically—and we feel very strongly about this—OPM should delegate all Qualification Review Board decisions to the selecting agencies themselves and, in addition, eliminate the SES recertification program. We don't believe that the recertification program has done what it was intended to do. It has not improved performance of SES'ers, nor has it served as a tool to eliminate nonperforming members of the SES.

OPM should simplify pay and classification and seek legislation to authorize pay banding. It should develop several models for pay banding and update and simplify the classification standards to help agencies tailor the models to their own needs.

And while we would like OPM to retain policy and consulting expertise, we don't believe OPM needs to be in the business of actually delivering training. Training is an area that could be privatized. And our experience to date has been that, given the op-

tions, we're able to choose OPM for certain types of courses that we find are not available elsewhere; or, conversely, we can let contracts to have independent contractors provide the training.

Finally, OPM should retain a central role in either conducting background investigations or in credentialing contractors to conduct investigations for agencies that need the service. And I think that's particularly important for small agencies like the SEC where we have a relatively large proportion of people who are in sensitive positions, or who have national security clearances, and we don't have the ability or the capability to either conduct the investigations ourselves. We absolutely have to rely on OPM to do this for us. If this were privatized, we would also be concerned about who would be conducting the investigations.

More specifically, we believe that OPM should at least credential private organizations to do the job, and with OPM's blessing I guess we would have the confidence that the information they obtain is valid, would be kept private and also that they would have access to the appropriate records—FBI records, court records and whatever is necessary—to do a full-fledged investigation.

And, last, would SEC be willing and able to assume greater responsibilities in the personnel area in the face of reduced appropriations for administrative functions? The answer is, yes, we would. We would welcome additional responsibilities within the policy framework I've discussed. However, in order for small agencies to assume greater responsibilities we also need the flexibility to streamline procedures as well as continued technical assistance from OPM.

I might add that we have designated our whole personnel system as a reinvention lab under the National Performance Review, and we've had a lot of success by having task forces deal with performance management, alternate work schedules, staffing and so forth. So we've come up with a lot of innovations, but sometimes we find that we're unable to proceed because of regulatory restrictions.

Thank you. I'll be happy to answer any questions you may have.

[The prepared statement of Mr. Alegria follows:]

PREPARED STATEMENT OF FERNANDO ALEGRIA, ASSOCIATE EXECUTIVE DIRECTOR, OFFICE OF ADMINISTRATION AND PERSONNEL MANAGEMENT, SECURITIES AND EXCHANGE COMMISSION

Chairman Mica and Members of the Subcommittee: I appreciate this opportunity to testify, on behalf of the Securities and Exchange Commission, regarding the Administration's proposal to restructure and downsize the U.S. Office of Personnel Management (OPM) and its impact on agency personnel programs. My comments will focus on the impact of the proposed changes, particularly as they relate to a small agency like the SEC which has only approximately 2,700 employees.

As you know, within the past year and a half, there have been significant changes in the philosophy and operations of OPM resulting in changes to federal personnel programs. I think that the personnel community generally agrees that these changes were needed, and that the federal personnel regulatory framework had become overly complicated with many burdensome and inefficient requirements. The National Performance Review (NPR) undertook an ambitious process of defining the needs for reform through seeking input from agency managers and employees, as well as from the general public. We have been pleased to see OPM move forward quickly to lead the implementation of these changes, especially during a time in which OPM has been undergoing substantial internal restructuring.

The needs and problems of small agencies are very different from those of larger agencies. Small agencies like the SEC must perform all of the same personnel functions and develop a similar range of personnel programs as large agencies, but with

significantly fewer resources and less opportunity for staff specialization in different areas of expertise. Therefore, a small agency like the SEC which has twenty-five personnel specialists needs to rely more on OPM for advice and technical assistance on complex legal and regulatory issues.

On the other hand, small agencies often have special needs or circumstances that differ from those of large agencies, so we strongly support flexibility in the procedural implementation of government-wide personnel regulations. As long as they meet certain minimum standards, agencies should be able to develop procedures to implement the basic requirements which are tailored to their individual needs.

Since the release of the NPR recommendations, we have seen genuine evidence of change, especially proposals originating from or involving OPM. For example, we have been consulted on overall plans for human resource management (HRM) reform legislation, including legislative proposals to clarify the redesigned role of OPM, and a number of regulatory proposals on specific program areas that serve to streamline requirements or increase agency discretion on procedures. The SEC has been supportive of these changes. In addressing the specific questions posed by the Subcommittee, I would like to briefly discuss OPM's role and then respond to each question.

I. WHAT IS THE APPROPRIATE ROLE OF OPM?

OPM should function as a central service and advisory agency. Its focus should move from the direct control of processes and procedures to promulgating broad policy frameworks intended to uphold the basic merit principles. The implementation of details should be left largely to the individual agencies. For example, this is the approach that OPM has taken on performance management systems in the proposed regulations published in the January 27, 1995 Federal Register.

There needs to be government-wide consistency on certain basic issues relating to conditions of civil service employment such as guidance in the areas of benefits, processes for pay determinations, retention rights, disciplinary and adverse action due process procedures, and labor management relations. OPM could play an important role by serving as an authoritative source for interpretive guidance.

As a regulator, OPM also needs to maintain an effective enforcement mechanism. Agencies, as well as individual managers, need to be accountable for compliance with statutory requirements, particularly if the precise methods of achieving the statutory objectives are not spelled out through detailed procedures.

In addition to its advisory role, OPM provides an important service in managing government-wide benefits programs, such as retirement, health benefits, and life insurance. Central OPM control of these programs offers the advantages of group purchasing power, maximum choice, and lower administrative overhead costs.

OPM should play a strong role in facilitating communication and coordination among agencies, and in serving as a consultant. Since the NPR report, OPM has become much more customer-oriented, and we applaud this initiative. The development of OPM's Mainstreet bulletin board has greatly enhanced OPM's information clearinghouse capabilities and the quality and timeliness of its advisory service to agencies. For example, publicizing case law developments and best practices of other organizations helps agencies to maximize their own resources by avoiding duplication of efforts in research and program development. We also support OPM's government-wide research activities and efforts to develop model programs either independently or by organizing consortia of other agencies. For example, the SEC was one of the organizations that piloted an automated version of the FPM 296–33, "Guide to Personnel Processing."

However, training is not part of the core services OPM must provide. We would support the idea of "privatizing" training to promote competition.

In summary, we agree with the redefined role of OPM that has been communicated to agencies, and look forward to its full implementation. Nonetheless, we are concerned that downsizing too rapidly and without adequate transition may undermine the level of expertise that OPM staff have developed over the years.

II. CAN EACH AGENCY AND DEPARTMENT EFFECTIVELY MANAGE THEIR PERSONNEL FUNCTIONS WITHOUT STRONG DIRECTION FROM A CENTRAL PERSONNEL AGENCY?

As I stated earlier, a strong central authority is needed for certain specific areas of policy direction. However, the overly prescriptive procedures and excessive red tape that have been created over the years need to be eliminated. Effective regulatory simplification and delegation to agencies will allow the agencies to implement personnel programs to meet their specific needs.

III. WHICH ACTIVITIES SHOULD REMAIN CENTRALIZED AND WHICH CAN BE READILY DELEGATED AWAY?

The regulatory, advisory, and coordination functions need to remain centralized at OPM. It would be useful for OPM to maintain a customer service or technical assistance function to provide experts that can assist agencies (preferably small agencies) with personnel and management issues. However, agencies need more flexibility and authority to recruit and hire directly and be able to set pay within broad bands and overall limitations. Although agencies should be accountable for ensuring that the merit principles are followed, they should have full flexibility to develop streamlined procedures for selecting the best qualified applicants. OPM should maintain a central repository for vacancy information throughout government, operate a displaced government employee placement program, and develop a single simplified standard application format. The general public should have one source for employment information and not have to create customized applications for each agency.

In contrast, just as we would seek flexibility in recruiting employees, it is important to provide agencies with maximum flexibility regarding staff reductions. This is especially important during a time when agencies are being called upon to restructure and downsize.

OPM should delegate approval for entry into the Senior Executive Service (SES) to agencies, but issue guidelines for standard executive competencies and qualification standards. The existing Qualification Review Board (QRB) process allows SES members from other agencies, generally unfamiliar with the selecting agency, to impose their judgments on whether individuals selected by an agency are sufficiently qualified. Agencies should be delegated the authority to conduct their own QRB process. In addition, the current SES recertification program should be eliminated since to date it has not produced any meaningful results in motivating higher performance or removing non-performing SES members.

In the area of pay and classification, there should be some central models for pay banding and simplified, updated classification standards issued by OPM. Agencies then would be able to tailor the models and apply the standards to meet their particular needs and environments. If managers are to be held responsible for managing their resources, they should be able to make some choices and "trade offs" between higher salaries, numbers of employees, and perhaps automation tools within an established budget.

As indicated earlier, employee relations matters, such as those involving disciplinary and adverse actions and performance-based actions, need to follow consistent criteria to minimize legal challenges. Training and employee development policies should be left to the discretion of each agency, although a centralized training resource at OPM could be useful for advisory services and development of training to meet government-wide mandates, such as HIV/AIDS training and ethics training. OPM should retain a central role in either conducting background investigations or in credentialing contractors to conduct the investigations for agencies that need this service.

IV. HAVE AGENCIES SUCH AS YOURS HAD AN OPPORTUNITY TO DISCUSS THESE ISSUES WITH OPM AND OMB?

Yes, we have been involved through interagency advisory group meetings and requests for comments on various OPM proposals. In addition, representatives of the Small Agency Personnel Directors' Group met with OPM Director James B. King to relate the requests and concerns of small agencies. We participated in preparing issue papers for that meeting. Our Executive Director has discussed various agency personnel resource issues with OMB officials.

V. WOULD YOU BE WILLING AND ABLE TO ASSUME GREATER RESPONSIBILITIES IN THE PERSONNEL AREA IN THE FACE OF REDUCED APPROPRIATIONS FOR ADMINISTRATIVE FUNCTIONS?

Yes, we would welcome additional responsibilities and delegations within the policy framework discussed above. However, in order for small agencies to assume greater responsibilities we need maximum flexibility to streamline procedures as well as continued technical assistance from OPM.

Mr. MICA. Thank you both.

And if I might lead off with a couple of questions. This is very helpful for me, because it gives me some insight and some back-

ground as to how a couple of agencies function from a real standpoint.

First of all, Dr. Disney, DOD has how many people involved in civilian personnel? How many individuals are involved in the civilian side? And I'm not sure if you break it up to the active personnel side.

Ms. DISNEY. About 15,500, just under that.

Mr. MICA. 15,000——

Ms. DISNEY. If you're talking about in the personnel issue.

Mr. MICA. Yes, with the civilian workforce. In the civilian workforce, I heard there's somewhere between 900,000 and a million?

Ms. DISNEY. Yes, under 900,000 regular employees and 180,000 paid with nonappropriated funds.

Mr. MICA. OK. And you have 15,000.

Ms. DISNEY. Yes, there are approximately 15,500 personnelists.

Mr. MICA. How many of the 15,000 are in sort of a manager capacity?

Ms. DISNEY. I don't have an answer to that. I'm not sure how you would define managerial.

Mr. MICA. Well, you know, that have some administrative responsibility as far as human resources.

Ms. DISNEY. Well, I am not certain of that percentage, but I'll find that out and give you that information.

Mr. MICA. I would just be curious.

[The information referred to follows:]

As part of the DoD Plan for Streamlining the Bureaucracy, the Department identified that it had 108,836 supervisors and managers who have responsibility for the human resources as it applies to the employees who work for them. These numbers are separate from the 15,500 personnel specialists who perform technical and advisory work for both the supervisors and the employees they service.

Mr. MICA. I am trying to find out how many people across the spectrum of the Federal workforce are involved, again, in personnel processing and human resource activities?

Ms. DISNEY. Well, right now, we have about 15,500 involved in that, which is a lower number than just a year ago as we're consolidating some services.

Mr. MICA. That was my next question. Since you've gotten rid of some of the personnel—I think you said around a quarter of a million over a couple years—has that number come down?

Ms. DISNEY. Oh, yes. That has brought down the number. And the regionalization and modernization efforts in which we're engaged right now will, by the turn of the century, have cut that number of personnelists in half.

Mr. MICA. So the next 5 years you're going to go from 15,000 to 7,000?

Ms. DISNEY. About 7,500, yes.

Mr. MICA. 7,500.

Ms. DISNEY. We're working to change the ratio of personnelists. Right now, there is roughly one personnelist for every 60 employees. We're moving toward a ratio of 100 at the turn of the century.

Mr. MICA. The figure that was quoted to me by Mr. King I think was 35,000 people involved. Are you—you're included in that 35,000, so you would be 15,000 of that?

Ms. DISNEY. Yes, I believe so.

Mr. MICA. I was just trying to get an idea of how many people there are in the personnel activity versus the total workforce. How many DOD retirees are there from the civilian workforce?

Ms. DISNEY. I don't know.

Mr. MICA. And the DOD civilian retirees—under what purview do they come? Do you do all of their files or is that handled by OPM?

Ms. DISNEY. No, that's handled by OPM.

Mr. MICA. OK.

Ms. DISNEY. Just like everybody else.

Mr. MICA. What about active military?

Ms. DISNEY. The retirement system, that's—I'm sorry. I don't deal with the military side.

Mr. MICA. OK. So, again, they have 1,600 people, approximately, at OPM who are dealing with *X* number of retirees? I am trying to get some picture.

Ms. DISNEY. I'd be happy to get those exact numbers for you.

[The information referred to follows:]

As of September 30, 1994, just over DoD civilian retirees were receiving annuities from OPM. More specifically, the individuals had retired from the following Components:

Army	263,124
Navy	208,577
Air Force	182,693
Other Defense	25,737
Total	680,131

Mr. MICA. I think they said 2 million Federal retirees currently, give or take many thousands. But they said approximately 1,600 individuals in that area. And they're asking for an increase there.

Are you hearing problems of processing or complaints dealing with the retiree?

Ms. DISNEY. None have come to my office.

Mr. MICA. OK. So that seems to be handled fairly well outside your purview.

It's my understanding that you said, out of the entire 230,000 positions which have been eliminated, only 8,000 were RIF'ed?

Ms. DISNEY. Under 8,000 in the last 2 years. There were nearly 3,000 for each of these previous years.

Mr. MICA. So that's out of the 115,000?

Ms. DISNEY. That's correct. Of the 115,000 separations over the past 2 years, fewer than 8,000 were a result of a RIF.

Mr. MICA. So we're looking at about 10, 12,000?

Ms. DISNEY. Yes. Yes, sir.

Mr. MICA. And what mechanisms did you employ? Maybe you could give us a little insight and would include personnel from base closure?

Ms. DISNEY. Yes, sir. That's everything.

Mr. MICA. OK. What mechanisms again did you—you described CARE, was it?

Ms. DISNEY. Yes. We have——

Mr. MICA. Is that the system that you put in place?

Ms. DISNEY. Yes. Well, actually—yes, sir. It is designed to help the workers who are being displaced in all senses of that term. We try to help them find new employment. We try to help them find retraining to qualify them for other jobs. And we try to help them into retirement if that is the choice they wish to make.

Mr. MICA. What type of activities is DOD doing as far as investigations and training? Are you paying them for any contract services now?

Ms. DISNEY. Yes, we pay OPM $71 per investigation, per new employee.

Mr. MICA. And what kinds of dollars are we talking about?

Ms. DISNEY. About a million and a half a year, I would say. At the current rates. Because we're now—they're now doing about 20,000 or so a year for us. In earlier years, of course, when we were hiring, that number was higher.

Mr. MICA. What about training?

Ms. DISNEY. Training varies, depending upon the kind of training. I can get you those specific numbers if you would like.

[The information referred to follows:]

OPM reports that for fiscal year 1994, approximately 66,000 DoD employees participated in OPM short courses, 30 at the Federal Executive Institute, and 2,100 in OPM's Management Development Centers courses. That year DoD spent approximately $20.8M on OPM courses.

Mr. MICA. But they are conducting training. Do you have a dollar figure?

Ms. DISNEY. They have training activities. They have the longer term Federal Executive Institute Program, where the SES'ers go. And then there are many short programs of the workshop and multi-day seminar variety. As our budget declines and our training dollars decline, we will take less advantage of those programs, needless to say, than we have in the past.

Mr. MICA. OK. As a contractor, if they get out of this business, would you contract for those services privately? Would that be your intent? Or are you encouraging to keep certain activities? Which do you think would be most cost effective for you as an agency?

Ms. DISNEY. Are you talking about the security checks or are you talking about the training?

Mr. MICA. Both.

Ms. DISNEY. If the security check system were changed, one option would be for us to take that activity in-house.

Mr. MICA. Don't you do some of that now?

Ms. DISNEY. Yes, we do. We do the advance-level checks ourselves.

Mr. MICA. Do you have a number of personnel that are involved in that?

Ms. DISNEY. Yes, we do.

Mr. MICA. That's within—now, are they——

Ms. DISNEY. We would need additional resources to do that.

Mr. MICA. Is that within the 15,500 or is that outside?

Ms. DISNEY. No, no, that's separate. Those are not counted as personnelists.

Mr. MICA. OK. So if you could also get me the figures of how many people are involved currently in your investigative area.

Ms. DISNEY. Investigations, yes, sir.

[The information referred to follows:]

In FY94, the Defense Investigative Service (DIS) completed more than 600,000 National Agency Checks and over 150,00 field investigations at a cost of approximately $150M. At the end of FY94, DIS had 2,550 personnel engaged in the management, oversight, and conduct of personnel security investigations for the Department. Since DIS investigators conduct investigations for military, civilians, and contractor personnel, there is no way to quantify a number devoted solely to civilian cases.

DoD is not authorized by OPM to conduct National Agency Checks with Inquiries plus Credit (NACIC) on newly hired civilians. In FY94, OPM conducted 31,500 NACIC's for DoD at an average cost of $71 each.

Mr. MICA. And if that could be absorbed maybe it could be done cost effectively. Maybe they don't have the capacity to assume that.

Ms. DISNEY. I strongly doubt that we'd have the capacity to absorb all of this work being done by OPM without additional resources. Or redirecting the money that we are now spending toward OPM, using those resources for in-house activity.

Mr. MICA. All right. And then training, the same situation?

Ms. DISNEY. Training is a little bit different because, as you know, the Department of Defense is extraordinarily skilled in training. It trains its own on the military side, and it's doing more and more of that on the civilian side. It has a number of institutes, command and staff colleges, war colleges and other operations which civilians can attend in varying numbers.

Now one option we have is to increase the numbers of civilians in those respective institutions. We also have the opportunity to go to more than one private vendor, beyond OPM, for education and training. So the decision has not been made as to how we would reallocate the training dollars yet.

Mr. MICA. OK, I have some more questions, but will yield to the ranking member first.

Mr. MORAN. Thank you, Mr. Chairman.

It's impressive that you have been able to achieve as substantial a reduction as you have with minimal RIF's. But at some point you reach a level where you can't squeeze any more.

Ms. DISNEY. That's right.

Mr. MORAN. And you have to RIF. When are you going to reach that level, in your estimation?

Ms. DISNEY. Well, clearly, for 8,000 people over the past 2 years, we reached it. Every year——

Mr. MORAN. But out of 150,000, that's——

Ms. DISNEY. Every year that our overall numbers decline, our capacity to reabsorb people declines as well. So the relative percentage of those and the numbers of those who will be RIF'ed will go up. That's inevitable.

Mr. MORAN. And you've got how many more you are anticipating reducing?

Ms. DISNEY. We believe that we are approximately—almost two-thirds of the way through our RIF. So there will be more—there will be roughly 100,000 more positions eliminated.

Mr. MORAN. So you have eliminated 200,000?

Ms. DISNEY. Over 200,000.

Mr. MORAN. Over 200,000, of which about 115 are civilians?

Ms. DISNEY. Oh, no, sir, those are all civilians. The 115,000 just cover the last 2 years.

Mr. MORAN. OK. Oh, I see what you're saying, OK.

Ms. DISNEY. We had isolated those 2 years because that was the period during which the separation incentives were available. They were not available prior to January 1993. We found them a very helpful tool to help us avoid involuntary separations.

Mr. MORAN. Give me the numbers, if you would, of where you started in January 1993. What was the total military and civilian? Was that in your testimony?

Ms. DISNEY. No, it was not. Can I get back to you with that exact number?

Mr. MORAN. Sure. Of course.

Ms. DISNEY. Because I don't want to misstate that.

Mr. MORAN. That's fine. I'd like to know the extent of the reduction.

Ms. DISNEY. Over the past 2 years, it has been 115,000.

Mr. MORAN. And all civilians, you're saying?

Ms. DISNEY. I'm just talking about civilians. Yes, sir.

Mr. MORAN. You don't know what the comparable enlisted is?

Ms. DISNEY. No, sir, I don't. But I can tell you that the rate of reduction has been different for the military and the civilians. Because when a base is closed, the troops can be pulled out. But civilians, because of their infrastructure responsibilities, stay there longer. As a consequence, we find that the military drawdown is a little over 80 percent completed, while the civilian drawdown is just a little over 60 percent completed.

In the years between now and the end of this decade, however, the percentage drawdown for civilians is going to be significantly higher than that for the military. It's just a function of the time and the infrastructure demands.

Mr. MORAN. I'd like to know the total numbers of both, cumulative and specific by year.

Ms. DISNEY. Yes, sir.

[The information referred to follows:]

[Rounded to thousands]

Fiscal Year	Army	Navy & MC	Air Force	Def Agencies	Total
Civilian Personnel					
FY89	403	354	261	99	1,117
FY90	380	341	249	103	1,073
FY91	365	329	233	117	1,044
FY92	334	309	214	149	1,006
FY93	294	285	202	156	937
FY94	280	269	197	155	901
Military Personnel					
FY89	770	790	571	0	2,131
FY90	751	780	539	0	2,070
FY91	725	766	511	0	2,002
FY92	610	726	470	0	1,806
FY93	572	688	444	0	1,704
FY94	541	643	426	0	1,610

Mr. MORAN. Do you find that people, civilian employees particularly, are waiting for new buyout incentives or anything of that nature?

Ms. DISNEY. Well, I think those who read the columns in the newspapers—or who listen in the corridors—are always susceptible to rumors. Some no doubt are waiting. But we're trying to manage it very carefully so there are very narrow windows of opportunity.

We also are making it very clear that a buyout is not an entitlement. We target them to occupations that are in surplus.

Mr. MORAN. Well, that's what I want to get at. That's a very substantial reduction. And it implies that there are over 100,000 civilian jobs that were not necessary, that were superfluous. Have you achieved any of that goal, that planned reduction, by consolidating activities that are common to all four services? Are you simply doing less?

I know the President would like to say you're doing more with less, but I'd like to know from you. Have you just decided to do less in terms of support functions or—what's the impact?

Ms. DISNEY. When the mission is redefined, when national defense policy changes, then the staffing within the agency changes. And there has been some of that. There has been some consolidation.

For example, I mentioned our field activity, Civilian Personnel Management Service. That came into being by consolidating from the Services many similar activities. In personnel policy writing, for example, there were perhaps 600 people across the various components engaged in that. By consolidating, we eliminated redundancy; and we've brought that number down to under 400, as an illustration.

Mr. MORAN. 400 people total?

Ms. DISNEY. To doing this one particular function. I was just giving you an example of consolidation.

Mr. MORAN. From?

Ms. DISNEY. 600.

Mr. MORAN. From 600.

There is an attempt to include four new nations into NATO. We have reduced the number of both military and civilian cumulative personnel stationed in Europe from a peak of about 400,000 down to about 100,000. If we were to extend NATO protection to Hungary, Poland, Czechoslovakia, the Czech Republic, and Slovakia, it would require more personnel and repositioning of personnel. Are those types of policy issues brought to your attention so that you can plan in advance?

For example, do you get, as a Personnel Director, Deputy Assistant Secretary, are you kept apprised of potential demands for additional workers, both in the civilian and military side?

Ms. DISNEY. My office is located in the Office of the Under Secretary of Personnel and Readiness. And any issue that is going to affect the size of the personnel workforce will come through my office, yes, sir. At least I hope it does.

Mr. MORAN. But you—you regularly engage in planning for those possibilities, changes in mission or security responsibilities?

Ms. DISNEY. Oh, we are continually planning for contingencies, yes. Even for coming here, we put together many different point papers on issues where we might be asked questions. So we try our best.

Mr. MORAN. Well, I understand that. I'm just concerned about your ability to adapt to new, expanded demands.

And, particularly, I use the case of Europe because you've had probably a couple hundred thousand civilian personnel at one time stationed over in Europe, know the language, know the culture, know the responsibilities. I would think of the 400,000 people who were stationed in Europe a great many of them are no longer in the Defense Department. If that was the case and we were to expand responsibilities, it is those people who would be most appropriate for assignment there, but yet you don't have them available to be assigned. That's the concern.

It's a little different than our domestic agencies. Whereas if you cut people, generally your customer is going to be aware of reduced service or changed delivery of service. With DOD, it's largely preparedness function.

Ms. DISNEY. Yes, sir.

Mr. MORAN. And so you don't know really until there is a crisis or at least a very visible demand for personnel.

Ms. DISNEY. That's why—I'm sorry.

Mr. MORAN. Go ahead, please.

Ms. DISNEY. That's why, as we design our personnel policies, we keep three overarching concerns in mind. And the first of these is the need to maintain readiness. There is no higher objective within the Department of Defense. We also strive to maintain the quality, to hiring the best of the best and to maintaining the diversity that we've developed within the workforce. So everything we do is against the backdrop of those three concerns.

Mr. MORAN. Well, I'm sure that's the case. I'm not sure how it's actually implemented, those three noble objectives.

Let me—let me ask Mr. Alegria, there's a new—and I won't take my second round of questioning, Mr. Chairman.

Mr. MICA. Go ahead.

Mr. MORAN. There's a new tax proposal called neutral cost recovery. Basically back in accelerated depreciation and you can get 132 percent return from your investment in a capital asset, which means there are going to be a whole lot of people who will go into limited partnerships similar to what we had during the 1980's. Great opportunity—doctors, lawyers, so on—they put in $5,000, and they're promised untold riches.

Mr. ALEGRIA. I'm one of them.

Mr. MORAN. Based upon our experience in the 1980's, there's going to be some accelerated demand for SEC personnel to monitor their creation and marketing of these limited partnerships to exploit a tax loophole, essentially.

Now, if I was to have that background, for example, as a stockbroker and some knowledge of limited partnerships and the legislation, how long would it take you to hire someone who you needed to meet a new oversight responsibility of the SEC?

Mr. ALEGRIA. I think that's a very good question.

First off, we have an awful lot of attorneys. And attorneys are exempted positions so it makes it easier to hire them because we can—we have clearly a selection process, interview them and select the most qualified individuals. We can hire attorneys very quickly

because we don't have to go through the OPM competitive services procedures.

Mr. MORAN. You don't have to go through OPM to hire attorneys?

Mr. ALEGRIA. Not for attorneys because they are exempted from the regular—they're noncompetitive jobs. And so if you're an attorney you can be hired without going through all the normal OPM procedures. But we do have very stringent requirements.

Mr. MORAN. That's probably—but that exemption is—I can just imagine—was probably written by an attorney.

Mr. ALEGRIA. I'm sure. But that does simplify the process.

But we have another category also. You asked a question about limited partnerships. And, clearly, that's one of our problems with the expanding mutual funds and so forth, that we needed more examiners to go out and check the books.

Again, there's another hiring authority called the Outstanding Scholar Program, which means that any individual who has a 3.5 average or is in the highest 10 percent of his or her class, can be hired directly without going through the OPM process. So we simply advertise for applicants under this program.

I think it was last year we had 50 new positions for examiners. We advertised in newspapers, had lots of outstanding applicants, very bright people that had the required 3.5 average; and we were able to pick them up quickly and efficiently. And I am glad to say we were able to diversify our workforce also, because we were able to get women and minorities and so forth included in that group.

Mr. MORAN. Is this unique to the SEC, George? Is that the only agency that would do it?

Mr. NESTERCZUK. No, Schedule A authorities are governmentwide, and the Outstanding Scholar Program is a limited one, but it's governmentwide.

Mr. ALEGRIA. It's governmentwide, but we're lucky that we've got this. Now, if we had to hire individuals who have to go through the normal system, that's where the problems start.

Mr. MORAN. If you hire them normally. But you're saying lawyers are exempt. That's why we have so many lawyers. You can hire lawyers any time you want to. That's why they're all over the place.

Mr. MICA. Doctors are, too, I think.

Mr. NESTERCZUK. There are about 100,000 Schedule A's in the government, all lawyers.

Mr. MORAN. 100,000 lawyers? Holy smokes.

Mr. MICA. We're in the wrong business.

Mr. MORAN. You probably are a lawyer.

Mr. MICA. No, I'm not.

Mr. MORAN. I'm a stockbroker, actually. But they don't have any exemption with stockbrokers, I'm sure.

Mr. MICA. If I had to work under the OPM constraints, I couldn't operate my business.

Mr. MORAN. Well, this answers a whole lot of questions I've had for what is wrong with the government. You can hire lawyers at the drop of a hat.

Mr. MICA. And then it's almost impossible to fire any.

Mr. MORAN. That's right. They'll sue you.

Mr. MICA. I understand that these people can also be dismissed without some of the other procedures. Is that true?

Mr. ALEGRIA. Well, it is largely correct. Since they're not in competitive positions, at least theoretically they can be dismissed. But since we're dealing with attorneys, who like to make sure that they get their rights, we treat them basically the same as for the competitive service, and we make a good case before we dismiss them.

Mr. MORAN. So they get the quid—isn't that something? This I did not know. I don't want to sound like Johnny Carson, but I did not know that. That's amazing. But if you were a normal person——

Mr. MICA. Not an attorney.

Mr. MORAN. Right, not an attorney.

Mr. ALEGRIA. Sir, we do have a few normal persons in SEC.

Mr. MORAN. How long would it take if you weren't an attorney?

Mr. ALEGRIA. If you were not an attorney, it usually takes—well, we estimate about 2 months probably, by the time we go through the review process, get the list from OPM and go through it.

Now, we do have delegated examining authority in some of our major occupations, including accountants, for example. And so by having this authority we've been able to reduce the time that it takes by not having to go through OPM.

Mr. MICA. So you strongly recommend flexibility?

Mr. ALEGRIA. Exactly. And we can do it in 1 month versus 2 months.

Mr. MORAN. How long would it take you to hire a normal person, Dr. Disney?

Ms. DISNEY. About the same.

Mr. MORAN. Two months?

Ms. DISNEY. Yes.

Mr. MORAN. Not as bad as it used to be.

Mr. MICA. I noticed that the Vice President had unfurled a 171 form, the old one, which is pretty long, and said it's replaced with a one-page document. But then I found that there were no instructions to the one-page document, and that they're just as long as the old process.

Then my question always becomes—the problem isn't hiring new people. Because we're in this downsizing, there are plenty of surplus personnel. We're trying to find a way to retain and keep the good folks. It's how you deal with the others that aren't as productive. And the system seems set to guarantee that they stay on and on and on and have many appeals. Is that your experience or not?

Ms. DISNEY. Which of us?

Mr. MICA. Go ahead, either one.

Mr. ALEGRIA. Ladies first.

Ms. DISNEY. Thank you.

I believe that most organizations, private sector as well as public sector, have what I sometimes refer to as the Lake Woebegone School of Performance Management, where everybody is above average. And to the extent that that exists, it becomes more difficult to discharge when that becomes necessary. So Federal Government is not unique there.

Mr. MICA. Mr. Alegria?

Mr. ALEGRIA. I would totally agree with that. My response would be exactly the same.

Mr. MICA. I have a couple of quick questions on this second round here.

What is the normal attrition rate in Federal Government? People who die, retire, quit, move? Six, 7 percent? Is that a good estimate? Or 10 percent?

Ms. DISNEY. I would imagine that's a good estimate. I don't have the full Federal figure.

Mr. ALEGRIA. Ours is slightly different, primarily because again, as I stated before, we have a lot of attorneys.

Mr. MICA. Well, this Federal manual, I don't know if this is to be believed, but actually I enjoy reading it. You can tell I'm into this committee.

Mr. MORAN. Well, it's a choice between the Federal budget and your performance manuals.

Mr. MICA. This is great reading. Makes you an instant expert. But I think this says somewhere around 10 percent, doesn't it? But we'll say 6 or 7 percent.

And then we look at the figures of individuals. I don't mean to be the devil's advocate here, but you told me you had somewhere between 900,000 and a million. Now I'm not very good at math, but over a 2-year period if you had, say, 6 percent times 2 years, and you had a million or 900,000, you're looking at about 120,000 people that would just normally disappear by attrition. And it says we got rid of 115,000 in less than 2 fiscal years. So I'm not sure, have we really accomplished things?

Then the other thing is, my colleague said that we had 100,000 superfluous individuals.

Mr. MORAN. Did I actually say that?

Mr. MICA. I have it, and it's on the record. But a lot of these, I would imagine, were in civilian backup positions where there were base closures and other activities where the job has literally been eliminated.

Ms. DISNEY. It's gone away, yes.

Mr. MICA. So I'm wondering what the real downsizing is. Some of it sounds good at first blush, but then you look at the roles they were playing, normal attrition, and I'm wondering what we've done.

And then the comments we have about everybody's performing a little bit above average, so we've got a lot of the same folks in place. It doesn't seem that there has been a real downsizing.

Ms. DISNEY. The attrition that you referred to was a government-wide figure, I believe, not a DOD figure. And our normal attrition rate is a bit lower than that because we have the capacity to reabsorb people through our mandatory replacement.

Mr. MICA. So yours is lower, 5 percent or something?

Ms. DISNEY. It's probably closer to 3 or 3½ normally.

Mr. MICA. I would be interested to see what that was historically. Maybe you can supply us with some of that information.

Ms. DISNEY. I can give you net loss rates for the last 3 years. I have those with me. But if you'd like it back further, I'd be happy to get them for you.

[The information referred to follows:]

In FY92, DoD hired nearly 29,000 employees while losing just under 50,000, for a net rate of 2.4 percent. For FY93, the figure was 6.3%; and for FY94, 5.2%. In FY93 and beyond, DoD was authorized the authority to offer separation incentives (buyouts), which has increased the level of attrition. An initial examination of attrition requires a look at separations of permanent appointments who leave DoD each year, whether through retirement, resignation, transfer to another Federal agency, death, reduction in force, or any other cause:

FY90—65,000
FY91—65,000
FY92—50,000
FY93—75,000 (includes 32,000 buyouts)
FY94—65,000 (includes 23,000 buyouts)

Because most departures traditionally have been unplanned and can create workload and skills imbalances, many positions are refilled. Relying on voluntary departures alone would be the same as depending upon lottery results for operational effectiveness.

Mr. MICA. How many current vacancies are there in DOD and the civilian workforce? If I ran a check right now on your computers, what numbers would I come up with regarding current vacancies?

Ms. DISNEY. I don't know, but I can find that out for you.

Mr. MICA. That would be another good question. I'd like to see how many there are.

[The information referred to follows:]

We do not maintain any data on vacancies in DoD. We can, however, provide the number of permanent employee accessions for each year.

FY90—40,000
FY91—39,000
FY92—29,000
FY93—21,000
FY94—22,000

Mr. MICA. Then another area that sort of mystified me is the downsizing of the Federal Personnel Manual from 10,000 pages to a small volume or something. But I understand that each agency, yours included, has your own personnel manual. And I understand that that's pretty bulky. And didn't you mention you're working on that?

Ms. DISNEY. Right.

Mr. MICA. What number of pages do you currently have and what are you aiming at?

Ms. DISNEY. Well, first, I can't speak for the kinds of personnel manuals that other agencies have. And we have a system that was integrated with the Federal Personnel Manual. So what we are engaged in right now is simplifying the way we do business and then translating the description of that into understandable English. So, right now, if you think reading the budget is boring, you should read a personnel manual.

Mr. MICA. How many pages is DOD? If I go look at your personnel manual, we pull the manual and all the rules, what kind of volume numbers, the pages?

Ms. DISNEY. Well, given that it was integrated with the Federal personnel system, you will see the Federal Personnel Manual, plus some. And that's what we're in the process of shrinking.

Mr. MICA. Right now, how many pages would be I looking at?

Ms. DISNEY. Many. I'm sorry, I don't have the numbers.

[The information referred to follows:]

Including instructions, guidance, and policy; there are over 4,000 pages in the DoD Civilian Personnel Manual. Since many of these documents fit with Federal Personnel Manuals issued over the years, we anticipate the number of pages in the final DoD Civilian Personnel Manual to be significantly reduced.

Mr. MICA. That would be interesting. I don't mean to pose that in jest, but I'm just curious. We talk about the downsizing the Federal Personnel Manual, and then I wonder what's left in the agencies. It's interesting, too, that you have 15,000 people overseeing maybe a million.

Ms. DISNEY. These are personnelists. These aren't the managers who may be doing the hiring and firing.

Mr. MICA. No, no, I understand that. Right. Which is your complement, you know, human resources. I don't know what the proper terms are today. But that speaks to your overseeing about a million. And then we have ancther 20,000 that oversee the balance of the Federal workforce. Would that be a good guesstimate? According to what Mr. King said. And you're trying to get to 7,500. It sounds like the ratio you need to work toward is about 5,000, 5,000 or 6,000, according to the number that they have involved. But because you have sort of a consolidated agency.

Ms. DISNEY. No, sir. Our ratio right now is significantly better than that in the overall government. We have about 60 employees per personnelist, where the government as a whole has 44. So we are much better, much more efficient in our personnel management now. And we're shooting for a hundred workers per personnelist, which will make us the state-of-the-art.

Mr. MICA. Well, I see that. I have some questions about the exact numbers and then also about the number of agencies and independent groups or small groups. Like you have 24 personnelists to 2,700?

Mr. ALEGRIA. We have about 25 personnelists, and we have 2,700 staff, to provide service for.

Mr. MICA. So your ratio is——

Mr. ALEGRIA. One to 108.

Mr. MICA. They're doing pretty good.

Ms. DISNEY. Yes, they are.

Mr. MICA. So maybe that's what we should be shooting toward.

Ms. DISNEY. That's why we're going for 1 to 100.

Mr. MICA. And that hasn't included for this agency what you're doing with OPM. Now you may become more OPM reliant than you are, and that would have to be factored in.

I just wanted to ask, as far as SEC is concerned and some of the proposals that have been made, I understand you do use investigations and training. Is any of this contracted out now and could it be contracted out if OPM goes out of business? And do you think that would be cost effective?

Mr. ALEGRIA. As I stated before, for the training part of it, we use OPM to a small measure. We really contract most of it out. We arrange for most of our training——

Mr. MICA. Is that in training and investigations?

Mr. ALEGRIA. No, I'm just talking about training right now. In the training area, we do most of our training with private contractors, rather than with OPM. But we do some with OPM, but a small portion of it.

Mr. MICA. What kind of dollar figures?

Mr. ALEGRIA. We spend about $700,000 a year on training. And that includes training for secretaries. But even attorneys and accountants, for example, need specialized training. We're one of the agencies that has grown a little bit instead of downsizing. So, for example, when we picked up the 50 new examiners, we had to give them training. And so we spend approximately $700,000 a year.

Mr. MICA. What about investigations?

Mr. ALEGRIA. For investigations, that's much less. We spend between $15,000 and $20,000 a year on investigations. We do that strictly through OPM.

Mr. MICA. But that could be contracted out?

Mr. ALEGRIA. It could be contracted out, but we have a concern as to whom we would contract it out to.

Mr. MICA. And was it you that recommended that if we do that, we should have OPM certify——

Mr. ALEGRIA. Yes, sir.

Mr. MICA. Who is doing that?

Mr. ALEGRIA. I call it credentialing.

Mr. MICA. I thought that was a good proposal.

I'm sorry. You wanted to respond?

Ms. DISNEY. Yes, I wanted to go back just for a moment to the attrition issue. Attrition lets whoever wants to leave, leave. Those figures are based upon that.

Well, we have a definite mission at DOD, and relying just on attrition isn't necessarily going to enable us to maintain readiness. The tools that we have been using have enabled us to target the occupations and so forth where we want that attrition to occur. So relying on chance alone won't help us. We have to be able to target.

Mr. MICA. Well, I appreciate your comments there.

Mr. Moran, did you have any other questions?

Mr. MORAN. No. I think it's OK. I am glad that you got a large agency and a small agency. It would seem that the small agency is more dependent upon OPM but not necessarily so. Dr. Disney has pointed out that the function of investigations, for example, is what she would consider to be an essential function that she couldn't perform in-house.

Ms. DISNEY. Well, we could if we kept the money.

Mr. MORAN. If you had more people, yes.

Ms. DISNEY. Yes, and had more people.

Mr. MORAN. Yeah, sure. Do you notice an effort in the last year to decentralize the personnel function, to give you more autonomy over the management of your personnel, autonomy that used to be more tightly controlled by OPM?

Mr. ALEGRIA. I think there is definitely a move in that direction. I've sensed a change in the way OPM operates, that they're more customer oriented. Before, they used to play, like the saying goes, "I gotcha." And now they're here to help us. So I think that there is a definite change. I think they are headed in the right direction, and we're pleased with that.

Mr. MORAN. Good. Dr. Disney.

Ms. DISNEY. I think the restructuring is a work in progress, and we're pleased with the movement toward decentralization.

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Mr. MORAN. But neither of you would want them to be purely an advisory function?

Ms. DISNEY. No, sir.

Mr. MORAN. Which is what is envisioned by the Reinventing Government.

Ms. DISNEY. I think there is oversight responsibility that's built into that as well.

Mr. ALEGRIA. Yes, for my part, I see that as one of their functions, an advisory role. We definitely would like them to continue advising and give us the right interpretations. But, most of all, we welcome additional flexibility in the procedures and methodologies.

Mr. MORAN. OK. Thank you, Mr. Chairman. Thank you.

Mr. MICA. I also want to thank our two witnesses. We don't want to be the devil's advocate. We didn't invite you here just to just beat up on you. But we are trying to find out what's cost effective in this, what is most efficient and how we can apply taxpayer dollars to this. And then come up with some answers to some difficult questions on how we approach the downsizing and the rightsizing of OPM and all of the Federal agencies. But we appreciate your participation, your testimony.

And if there are no other comments, I will adjourn the subcommittee hearing. And we will leave the record open for additional responses. Thank you.

[Whereupon, at 1:43 p.m., the subcommittee was adjourned.]

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